

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2024

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-32600

TUCOWS INC.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania
(State or Other Jurisdiction of
Incorporation or Organization)

23-2707366
(I.R.S. Employer
Identification No.)

96 Mowat Avenue,
Toronto, Ontario M6K 3M1, Canada
(Address of Principal Executive Offices) (Zip Code)

(416) 535-0123
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	TCX	NASDAQ

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T §232.405 of this chapter during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging Growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

As of November 4, 2024, there were 11,004,683 outstanding shares of common stock, no par value, of the registrant.

TUCOWS INC.
Form 10-Q Quarterly Report
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TRADEMARKS, TRADE NAMES AND SERVICE MARKS

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PART I. FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements
Tucows Inc.
Consolidated Balance Sheets

(Dollar amounts in thousands of U.S. dollars)
(unaudited)

	September 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 75,209	\$ 92,687
Restricted cash (note 7)	4,303	3,639
Accounts receivable, net of allowance for doubtful accounts of \$497 as of September 30, 2024 and \$511 as of December 31, 2023	18,892	22,206
Contract asset, net (note 10)	-	1,417
Inventory	4,812	6,786
Prepaid expenses and deposits	16,453	17,387
Derivative instrument asset (note 4)	708	2,277
Deferred costs of fulfillment, current portion (note 11)	100,681	95,649
Income taxes recoverable	524	709
Total current assets	221,582	242,757
Deferred costs of fulfillment, long-term portion (note 11)	15,548	15,419
Investments	2,012	2,012
Secured notes reserve funds (note 7)	11,579	8,652
Property and equipment, net	355,689	339,644
Right of use lease asset	33,794	27,467
Contract costs	2,445	2,581
Intangible assets, net (note 5)	25,968	29,484
Goodwill (note 5)	130,410	130,410
Total assets	\$ 799,027	\$ 798,426
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 9,128	\$ 12,676
Accrued liabilities	29,859	35,356
Customer deposits	17,187	19,335
Operating lease liability, current portion (note 12)	5,551	5,397
Deferred revenue, current portion (note 10)	134,745	126,733
Accreditation fees payable	627	609
Income taxes payable	1,775	1,235
Total current liabilities	198,872	201,341
Deferred revenue, long-term portion (note 10)	21,284	21,350
Operating lease liability, long-term portion (note 12)	23,949	18,255
Syndicated revolver (note 6)	196,261	210,354
Notes payable (note 7)	286,641	222,895
Redeemable preferred units - no par value, 33,333,333 units authorized; 15,243,600 units issued and outstanding as of September 30, 2024 and December 31, 2023 (note 18)	122,128	111,390
Deferred tax liability	2,966	2,966
Stockholders' deficit (note 14)		
Common stock - no par value, 250,000,000 shares authorized; 10,985,238 shares issued and outstanding as of September 30, 2024 and 10,903,405 shares issued and outstanding as of December 31, 2023 (note 14)	36,142	34,373
Additional paid-in capital	17,930	14,072
Accumulated deficit	(107,683)	(40,298)
Accumulated other comprehensive income (note 4)	537	1,728
Total stockholders' deficit	(53,074)	9,875
Total liabilities and stockholders' deficit	\$ 799,027	\$ 798,426
Contingencies (note 20)		
Subsequent events (note 21)		

See accompanying notes to consolidated financial statements

Tucows Inc.
Consolidated Statements of Operations and Comprehensive Loss
(Dollar amounts in thousands of U.S. dollars, except per share amounts)
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Net revenues (note 10)	\$ 92,297	\$ 86,971	\$ 269,177	\$ 252,379
Cost of revenues (note 10)				
Direct cost of revenues	52,613	50,717	155,735	150,750
Network, other costs	6,864	7,322	20,790	20,638
Network, depreciation of property and equipment	9,414	9,138	29,336	26,331
Network, amortization of intangible assets (note 5)	366	378	1,097	1,135
Network, impairment of property and equipment	852	2,663	905	4,679
Total cost of revenues	<u>70,109</u>	<u>70,218</u>	<u>207,863</u>	<u>203,533</u>
Gross profit	22,188	16,753	61,314	48,846
Expenses:				
Sales and marketing	15,180	17,295	48,491	49,052
Technical operations and development	4,615	4,818	14,153	14,214
General and administrative	11,485	9,399	30,491	25,674
Depreciation of property and equipment	112	137	350	439
Amortization of intangible assets (note 5)	843	2,242	2,992	6,966
Loss (gain) on currency forward contracts (note 4)	-	29	-	52
Total expenses	<u>32,235</u>	<u>33,920</u>	<u>96,477</u>	<u>96,397</u>
Loss from operations	(10,047)	(17,167)	(35,163)	(47,551)
Other income (expenses):				
Interest expense, net	(13,095)	(10,739)	(37,527)	(29,120)
Loss on debt extinguishment (note 18)	-	-	-	(14,680)
Income earned on sale of transferred assets, net (note 17)	3,853	4,312	10,831	12,971
Other income (expense), net	66	-	542	-
Total other income (expenses)	<u>(9,176)</u>	<u>(6,427)</u>	<u>(26,154)</u>	<u>(30,829)</u>
Loss before provision for income taxes	(19,223)	(23,594)	(61,317)	(78,380)
Provision (recovery) for income taxes (note 8)	3,074	(822)	6,068	(5,557)
Net loss for the period	<u>(22,297)</u>	<u>(22,772)</u>	<u>(67,385)</u>	<u>(72,823)</u>
Other comprehensive income (loss), net of tax				
Unrealized income (loss) on hedging activities (note 4)	415	(483)	(1,015)	163
Net amount reclassified to earnings (note 4)	(7)	(181)	(176)	(807)
Other comprehensive income (loss) net of tax expense (recovery) of \$134 and (\$211) for the three months ended September 30, 2024 and September 30, 2023, (\$376) and (\$204) for the nine months ended September 30, 2024 and September 30, 2023 (note 4)	408	(664)	(1,191)	(644)
Comprehensive loss, for the period	<u>\$ (21,889)</u>	<u>\$ (23,436)</u>	<u>\$ (68,576)</u>	<u>\$ (73,467)</u>
Basic and diluted loss per common share (note 9)	<u>(2.03)</u>	<u>(2.09)</u>	<u>(6.15)</u>	<u>(6.71)</u>
Shares used in computing basic and diluted loss per common share (note 9)	<u>10,982,820</u>	<u>10,874,659</u>	<u>10,953,778</u>	<u>10,852,079</u>

See accompanying notes to consolidated financial statements

Tucows Inc.
Consolidated Statements of Cash Flows
(Dollar amounts in thousands of U.S. dollars)
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Cash provided by:				
Operating activities:				
Net loss for the period	\$ (22,297)	\$ (22,772)	\$ (67,385)	\$ (72,823)
Items not involving cash:				
Depreciation of property and equipment	9,526	9,275	29,686	26,770
Impairment of property and equipment	852	2,663	905	4,679
Amortization of debt discount and issuance costs	1,159	1,140	3,301	2,271
Amortization of intangible assets	1,209	2,620	4,089	8,101
Net amortization contract costs	16	(255)	136	(612)
Deferred income taxes (recovery)	(129)	(3,258)	350	(9,381)
Net Right of use operating assets/Operating lease liability	(80)	(220)	(479)	(317)
Disposal of domain names	1	3	3	3
Accretion of redeemable preferred units	1,863	2,872	9,758	9,247
Loss on debt extinguishment	-	-	-	14,680
Write off of debt discount and issuance cost	-	277	-	277
Loss on change in the fair value of forward contracts	-	-	-	1,624
Amortization of discontinued cash flow hedge	-	-	-	(1,144)
Stock-based compensation expense	1,808	2,308	5,383	6,606
Undistributed earnings of equity method investee	(28)	-	(378)	-
Change in non-cash operating working capital:				
Accounts receivable	(927)	(677)	3,314	(5,785)
Contract assets	31	1,293	1,417	4,177
Inventory	732	12	1,974	(504)
Prepaid expenses and deposits	4,693	1,049	1,312	(2,394)
Deferred costs of fulfillment	(212)	1,520	(5,161)	(1,964)
Income taxes recoverable	1,376	1,445	753	589
Accounts payable	(2,624)	(334)	(4,151)	(5,433)
Accrued liabilities	(749)	(4,000)	(5,593)	293
Customer deposits	(1,250)	(708)	(2,148)	2,957
Deferred revenue	455	(1,216)	7,946	4,623
Accreditation fees payable	11	27	18	(314)
Net cash provided by (used in) operating activities	(4,564)	(6,936)	(14,950)	(13,774)
Financing activities:				
Proceeds from issuance of notes payable	62,991	-	62,991	227,258
Redeemable preferred units redemption	-	-	-	(45,718)
Proceeds from redeemable preferred units	-	-	-	35,000
Deferred notes payable financing costs	(2,011)	70	(2,011)	(6,675)
Deferred preferred financing costs	-	-	-	145
Contingent payments for acquisitions	-	-	-	(1,600)
Proceeds received on syndicated revolver	-	52,382	-	52,382
Repayment of syndicated revolver	(2,500)	(58,852)	(14,500)	(68,652)
Payment of syndicated revolver costs	(29)	(1,238)	(48)	(1,554)
Net cash provided by (used in) financing activities	58,451	(7,638)	46,432	190,586
Investing activities:				
Additions to property and equipment	(14,516)	(22,572)	(44,793)	(77,476)
Acquisition of intangible assets	(478)	(32)	(576)	(415)
Net cash provided by (used in) investing activities	(14,994)	(22,604)	(45,369)	(77,891)
Increase (decrease) in cash and cash equivalents, restricted cash, and restricted cash equivalents	38,893	(37,178)	(13,887)	98,921
Cash and cash equivalents, restricted cash, and restricted cash equivalents beginning of period	52,198	159,595	104,978	23,496
Cash and cash equivalents, restricted cash, and restricted cash equivalents end of period	\$ 91,091	\$ 122,417	\$ 91,091	\$ 122,417
Reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents within the interim consolidated balance sheets to the amounts shown in the interim consolidated statements of cash flows above:				
Cash and cash equivalents	75,209	110,736	75,209	110,736
Restricted cash included in funds held by trustee	4,303	3,138	4,303	3,138
Restricted cash included in secured notes reserve funds	11,579	8,543	11,579	8,543
Total Cash and cash equivalents, restricted cash, and restricted cash equivalents end of period	\$ 91,091	\$ 122,417	\$ 91,091	\$ 122,417
Supplemental cash flow information:				
Interest paid	\$ 11,352	\$ 5,483	\$ 28,856	\$ 15,810
Income taxes paid, net	\$ 2,451	\$ 1,367	\$ 5,278	\$ 3,342
Supplementary disclosure of non-cash investing and financing activities:				
Property and equipment acquired during the period not yet paid for	\$ 5,907	\$ 74	\$ 5,907	\$ 74

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. Organization of the Company:

Tucows Inc. (referred to throughout this report as the “Company”, “Tucows”, “we”, “us” or through similar expressions) is a corporate parent, allocating capital and providing efficient shared services to its three businesses Ting, Wavelo and Tucows Domains Services. Ting provides US consumers and small businesses with high-speed fixed Internet access in selected towns. Wavelo offers platform services which provide solutions to support Communication Service Providers (“CSPs”) including subscription and billing management, network orchestration and provisioning, individual developer tools, and other professional services. Tucows Domains Services is a global distributor of Internet services, including domain name registration, digital certificates, and email. It provides these services primarily through a global Internet-based distribution network of Internet Service Providers, web hosting companies and other providers of Internet services to end-users.

2. Basis of Presentation:

The accompanying unaudited interim consolidated balance sheets, and the related consolidated statements of operations and comprehensive loss and cash flows reflect all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair presentation of the financial position of Tucows and its subsidiaries as of September 30, 2024 and the results of operations and cash flows for the interim periods ended September 30, 2024 and 2023. The results of operations presented in this Quarterly Report on Form 10-Q are not necessarily indicative of the results of operations that may be expected for future periods.

The accompanying unaudited interim consolidated financial statements have been prepared by Tucows in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”) and U.S. Generally Accepted Accounting Principles issued by the Financial Accounting Standards Board. Certain information and footnote disclosures normally included in the Company's annual audited consolidated financial statements and accompanying notes have been condensed or omitted. These interim consolidated financial statements and accompanying notes follow the same accounting policies and methods of application used in the annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2023 included in Tucows' 2023 Annual Report on Form 10-K filed with the SEC on April 1, 2024 (the “2023 Annual Report”). There have been no material changes to our significant accounting policies and estimates during the three and nine months ended September 30, 2024 as compared to the significant accounting policies and estimates described in our 2023 Annual Report.

3. Recent Accounting Pronouncements:

Recent Accounting Pronouncements Not Yet Adopted

In November 2023, the FASB issued ASU 2023-07, “Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures.” The amendments in ASU 2023-07 improve financial reporting by requiring disclosure of incremental segment information, including significant segment expenses, on an annual and interim basis for all public entities to enable investors to develop more useful financial analyses. Currently, Topic 280 requires that a public entity disclose certain information about its reportable segments. For example, a public entity is required to report a measure of segment profit or loss that the Chief Operating Decision Maker (“CODM”) uses to assess segment performance and make decisions about allocating resources. Topic 280 also requires other specified segment information, such as depreciation, amortization and depletion expense amounts, to be disclosed under certain circumstances. The amendments in ASU 2023-07 do not change or remove those disclosure requirements. The amendments in ASU 2023-07 also do not change how a public entity identifies its operating segments, aggregates those operating segments, or applies the quantitative thresholds to determine its reportable segments. Early adoption is permitted. A public entity should apply the amendments in ASU 2023-07 retrospectively to all prior periods presented in the financial statements. The Company is currently evaluating the impact of this ASU on its consolidated financial statements and related disclosures. The amendments in ASU 2023-07 are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024.

In December 2023, the FASB issued ASU 2023-09 “Income Taxes (Topic 740): Improvements to Income Tax Disclosures.” ASU 2023-09 is intended to improve the disclosures for income taxes to allow investors to better assess, in their capital allocation decisions, how an entity's worldwide operations and related tax risks and tax planning and operational opportunities affect its income tax rate and prospects for future cash flows. The amendments in ASU 2023-09 require consistent categories and greater disaggregation of information in the rate reconciliation disclosure as well as disclosure of income taxes paid disaggregated by jurisdiction. The amendments of ASU 2023-09 are effective for annual periods beginning after December 15, 2024, with early adoption permitted for annual financial statements that have not yet been issued or made available for issuance. The Company is currently evaluating the impact of this ASU on its consolidated financial statements and related disclosures.

In February 2024, the FASB issued ASC 2024-02 “Codifications Improvements - Amendments to Remove References to the Concepts Statements.” ASU 2024-02 amends the codification to remove references to various concepts statements and impacts a variety of topics in the Codification. The amendments apply to all reporting entities within the scope of the affected accounting guidance, but in most instances the references removed are extraneous and not required to understand or apply the guidance. Generally, the amendments in ASU 2024-02 are not intended to result in significant accounting changes for most entities. ASU 2024-02 is effective January 1, 2025 and is not expected to have a significant impact on our financial consolidated statements.

In March 2024, the SEC adopted new rules relating to the disclosure of a range of climate-change-related physical and transition risks, data, and opportunities. The adopted rule contains several new disclosure obligations, including, (i) disclosure on how the board of directors and management oversee climate-related risks and certain climate-related governance items, (ii) disclosure of information related to a registrant's climate-related targets, goals, and/or transition plans, and (iii) disclosure on whether and how climate-related events and transition activities impact line items above a threshold amount on a registrant's consolidate financial statements, including the impact of the financial estimates and the assumptions used. We are in the process of assessing the impact on our consolidated financial statements and disclosures. On April 4, 2024, the SEC voluntarily stayed the new rule pending the completion of the judicial review of the consolidated petitions for review in the U.S. Court of Appeals for the Eight Circuit. Although it is uncertain when the judicial review will be completed, pursuant to the implementation dates outlined in the rule, this new rule could first be effective in our annual disclosures for the year ending December 31, 2027.

4. Derivative Instruments and Hedging Activities:

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are foreign exchange rate risk and formerly interest rate risk.

Since October 2012, the Company has employed a hedging program with a Canadian chartered bank to limit the potential foreign exchange fluctuations incurred on its future cash flows related to a portion of payroll, taxes, rent and payments to Canadian domain name registry suppliers that are denominated in Canadian dollars and are expected to be paid by its Canadian operating subsidiary. In May 2020, the Company entered into a pay-fixed, receive-variable interest rate swap with a Canadian chartered bank to limit the potential interest rate fluctuations incurred on its future cash flows related to variable interest payments on the Second Amended 2019 Credit Facility. The notional value of the interest rate swap was \$70 million. During the third quarter of fiscal year 2022, the Company elected to discontinue its application of hedge accounting to its interest rate swaps prospectively. Until the interest rate swaps matured in June 2023, the derivatives continued to be carried at fair value in the accompanying Consolidated Balance Sheets with changes in their fair value from the date of discontinuance recognized in current period earnings in Interest expense, net in the Consolidated Statements of Operations and Comprehensive Loss. Unrealized gains and losses in Accumulated other comprehensive income (AOCI) as of the date of discontinuance were realized in net income over the remaining term of the underlying forecasted interest payments into interest expense over the original term of the hedged debt. Prior to the discontinuance, for the interest rate swap contracts, unrealized gains or losses on the effective portion of these contracts had been included in other comprehensive income (OCI) and reclassified to earnings when the hedged transaction settled. As of September 30, 2024, there are no interest swaps held by the Company.

The Company does not use hedging forward contracts for trading or speculative purposes. The foreign exchange contracts typically mature between one and twelve months, and the interest rate swap fully matured as of June 30, 2023.

The Company has designated certain of these foreign exchange transactions as cash flow hedges of forecasted transactions under ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (“ASC Topic 815”). For certain contracts, as the critical terms of the hedging instrument, and of the entire hedged forecasted transaction, are the same, in accordance with ASC Topic 815, the Company has been able to conclude that changes in fair value and cash flows attributable to the risk being hedged are expected to completely offset at inception and on an ongoing basis. The Company designated the interest rate swap as a cash flow hedge of expected future interest payments at the inception of the contract. Accordingly, for the foreign exchange, unrealized gains or losses on the effective portion of these contracts were included within other comprehensive income and reclassified to earnings when the hedged transaction is settled. Cash flows from hedging activities were classified under the same category as the cash flows from the hedged items in the consolidated statements of cash flows. The fair value of the foreign exchange contract, as of September 30, 2024 and December 31, 2023, is recorded as derivative instrument assets or liabilities. For certain contracts where the hedged transactions are no longer probable to occur, the loss on the associated forward contract is recognized in earnings.

As of September 30, 2024, the notional amount of forward contracts that the Company held to sell U.S. dollars in exchange for Canadian dollars was \$43.2 million, of which \$43.2 million met the requirements of ASC Topic 815 and were designated as accounting hedges.

As of December 31, 2023, the notional amount of forward contracts that the Company held to sell U.S. dollars in exchange for Canadian dollars was \$61.4 million, of which \$61.4 million met the requirements of ASC Topic 815 and were designated as hedges.

As of September 30, 2024, we had the following outstanding forward contracts to trade U.S. dollars in exchange for Canadian dollars:

Maturity date (Dollar amounts in thousands of U.S. dollars)	Notional amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Fair value Asset
October - December 2024	\$ 13,795	\$ 1.3686	\$ 196
January - March 2025	18,218	1.3697	306
April - June 2025	11,181	1.3692	206
	\$ 43,194	1.3692	\$ 708

Fair value of derivative instruments and effect of derivative instruments on financial performance

The effect of these derivative instruments on our consolidated financial statements were as follows (amounts presented do not include any income tax effects).

Fair value of derivative instruments in the consolidated balance sheets

Derivatives (Dollar amounts in thousands of U.S. dollars)	Balance Sheet Location	As of September 30, 2024 Fair Value Asset	As of December 31, 2023 Fair Value Asset
Foreign Currency forward contracts designated as cash flow hedges	Derivative instruments	\$ 708	\$ 2,277
Total foreign currency forward contracts	Derivative instruments	\$ 708	\$ 2,277

Movement in AOCI balance for the three months ended September 30, 2024 (Dollar amounts in thousands of U.S. dollars)

	Gains and losses on cash flow hedges	Tax impact	Total AOCI
Opening AOCI Balance - June 30, 2024	\$ 166	\$ (37)	\$ 129
Other comprehensive income (loss) before reclassifications	551	(136)	415
Amount reclassified from AOCI	(9)	2	(7)
Other comprehensive income (loss) for the three months ended September 30, 2024	542	(134)	408
Ending AOCI Balance - September 30, 2024	\$ 708	\$ (171)	\$ 537

Movement in AOCI balance for the nine months ended September 30, 2024 (Dollar amounts in thousands of U.S. dollars)

	Gains and losses on cash flow hedges	Tax impact	Total AOCI
Opening AOCI balance - December 31, 2023	\$ 2,275	\$ (547)	\$ 1,728
Other comprehensive income (loss) before reclassifications	(1,336)	321	(1,015)
Amount reclassified from AOCI	(231)	55	(176)
Other comprehensive income (loss) for the nine months ended September 30, 2024	(1,567)	376	(1,191)
Ending AOCI Balance - September 30, 2024	\$ 708	\$ (171)	\$ 537

Effects of derivative instruments on income and OCI for the three months ended September 30, 2024 and 2023 are as follows (Dollar amounts in thousands of U.S. dollars)

Derivatives in Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in OCI, net of tax, on Derivative	Location of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income
		Operating expenses	\$ 7
Foreign currency forward contracts for the three months ended September 30, 2024	\$ 415	Cost of revenues	\$ 2
		Operating expenses	\$ 198
Foreign currency forward contracts for the three months ended September 30, 2023	\$ (483)	Cost of revenues	\$ 40

Effects of derivative instruments on income and OCI for the nine months ended September 30, 2024 and 2023 are as follows (Dollar amounts in thousands of U.S. dollars)

Derivatives in Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in OCI, net of tax, on Derivative	Location of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income
		Operating expenses	\$ 190
Foreign currency forward contracts for the nine months ended September 30, 2024	\$ (1,015)	Cost of revenues	\$ 41
		Operating expenses	\$ (38)
Foreign currency forward contracts for the nine months ended September 30, 2023	\$ 163	Cost of revenues	\$ (17)

5. Goodwill and Other Intangible Assets:

Goodwill:

Goodwill represents the excess of the purchase price over the fair value of tangible and identifiable intangible assets acquired and liabilities assumed in our acquisitions.

The Company's Goodwill balance remained consistent at \$130.4 million as of September 30, 2024 and December 31, 2023. The Company's goodwill relates 83% (\$107.7 million) to the Tucows Domains operating segment and 17% (\$22.7 million) to the Ting operating segment.

Goodwill is not amortized, but is subject to an annual impairment test, or more frequently if impairment indicators are present. No impairment charge was recognized during the three and nine months ended September 30, 2024 and 2023.

Other Intangible Assets:

Intangible assets consist of acquired brand, technology, customer relationships, surname domain names, direct navigation domain names and network rights. The Company considers its intangible assets consisting of surname domain names and direct navigation domain names as indefinite life intangible assets. The Company has the exclusive right to these domain names as long as the annual renewal fees are paid to the applicable registry. Renewals occur routinely and at a nominal cost. The indefinite life intangible assets are not amortized but are subject to impairment assessments performed throughout the year. As part of the normal renewal evaluation process during the periods ended September 30, 2024 and September 30, 2023, the Company assessed that all domain names that were originally acquired in the June 2006 acquisition of Mailbank.com Inc. that were up for renewal, should be renewed.

Intangible assets, comprising brand, technology, customer relationships and network rights are being amortized on a straight-line basis over periods of two to fifteen years.

For the three and nine months ended September 30, 2024 the Company acquired customer relationship assets through hosting agreements for \$0.5 million and \$0.6 million. These assets are being amortized over seven years.

Net book value of acquired intangible assets consist of the following (Dollar amounts in thousands of U.S. dollars):

Amortization period	Surname domain names	Direct navigation domain names	Brand	Customer relationships	Technology	Network rights	Total
	indefinite life	indefinite life	7 years	3 - 7 years	2 - 7 years	15 years	
Balances, June 30, 2024	\$ 11,149	\$ 1,128	\$ 573	\$ 11,178	\$ 1,838	\$ 834	\$ 26,700
Acquisition of customer relationships	-	-	-	478	-	-	478
Additions to/(disposals from) domain portfolio, net	(1)	-	-	-	-	-	(1)
Amortization expense	-	-	(75)	(953)	(156)	(25)	(1,209)
Balances, September 30, 2024	\$ 11,148	\$ 1,128	\$ 498	\$ 10,703	\$ 1,682	\$ 809	\$ 25,968

Amortization period	Surname domain names	Direct navigation domain names	Brand	Customer relationships	Technology	Network rights	Total
	indefinite life	indefinite life	7 years	3 - 7 years	2 - 7 years	15 years	
Balances, December 31, 2023	\$ 11,151	\$ 1,128	\$ 870	\$ 13,303	\$ 2,148	\$ 884	\$ 29,484
Acquisition of customer relationships	-	-	-	576	-	-	576
Additions to/(disposals from) domain portfolio, net	(3)	-	-	-	-	-	(3)
Amortization expense	-	-	(372)	(3,176)	(466)	(75)	(4,089)
Balances, September 30, 2024	\$ 11,148	\$ 1,128	\$ 498	\$ 10,703	\$ 1,682	\$ 809	\$ 25,968

The following table shows the estimated amortization expense for each of the next 5 years and thereafter, assuming no further additions to acquired intangible assets are made (Dollar amounts in thousands of U.S. dollars):

	Year ending December 31,
Remainder of 2024	\$ 5,777
2025	3,236
2026	1,699
2027	1,634
2028	386
Thereafter	960
Total	\$ 13,692

6. Syndicated Revolver:

2023 Credit Facility

On September 22, 2023, the Company and its wholly owned subsidiaries, Tucows.com Co., Ting Inc., Tucows (Delaware) Inc., Wavelo, Inc. and Tucows (Emerald), LLC (each, a “Borrower” and together, the “Borrowers,” collectively with the Company, “Tucows”) and certain other subsidiaries of the Company, as guarantors, entered into a Credit Agreement (the “2023 Credit Agreement”) with Bank of Montreal, as administrative agent (“BMO” or the “Agent”), and the lenders party thereto, to, among other things, provide the Borrowers with a revolving credit facility in an aggregate amount not to exceed \$240 million (the “2023 Credit Facility”). The Borrowers may request an increase to the Credit Facility through new commitments of up to \$60 million if the Total Funded Debt to Adjusted EBITDA Ratio (as defined in the Credit Agreement) is less than 3.75:1.00. The Credit Facility expires on September 22, 2026, which is the third anniversary of the effective date of the Credit Agreement.

In connection with the 2023 Credit Facility, the Company incurred \$0.9 million of fees paid to the Lenders and \$0.3 million of legal fees related to the debt issuance. These fees have been reflected as a reduction to the carrying amount of the loan payable and will be amortized over the term of the credit facility agreement. The Company evaluated the issuance of the 2023 Credit Facility and the termination of the 2019 Credit Facility (collectively referred to as the "Debt Transactions") under the loan modification and extinguishment guidance within ASC 470. The Debt Transactions were accounted for as a partial modification, partial extinguishment and new debt issuance at the syndicated lender level. Based on the application of the loan modification and extinguishment guidance within ASC 470 to the Debt Transactions, the Company has treated \$50.9 million of the loan principal under the 2019 Credit Facility as an extinguishment of debt and \$50.9 million of the loan principal under the 2023 Credit Facility as issuance of new debt. The remaining loan principal on the 2023 Credit Facility was treated as a loan modification within the guidance of ASC 470. In accordance with the debt extinguishment, the Company expensed \$0.1 million of the unamortized debt issuance costs to Interest expense, net in the Consolidated Statements of Operation.

During the three and nine months ended September 30, 2024, the Company made repayments of \$2.5 million and \$14.5 million on the 2023 Credit Facility.

Third Amended 2019 Credit Facility

In connection with entering into the 2023 Credit Facility, on September 22, 2023, the Company paid off the principal balance, including accrued interest thereon, of the revolving loans outstanding under the Third Amended and Restated Credit Agreement (the “RBC Credit Agreement”), dated as of August 8, 2022, as amended, by and among the Company, certain subsidiaries of the Company as borrowers, certain other subsidiaries of the Company as guarantors, Royal Bank of Canada, as administrative agent (“RBC”), and the lenders party thereto, pursuant to which Tucows’ prior credit facility that provided the Borrowers with a \$240 million revolving credit facility (the "2019 Credit Facility"). The RBC Credit Agreement automatically terminated upon the receipt by RBC of certain backstop letters of credit delivered by BMO.

2023 Credit Facility Terms

The 2023 Credit Agreement contains customary representations and warranties, affirmative and negative covenants, and events of default. The 2023 Credit Agreement requires that the Company comply with certain customary non-financial covenants and restrictions. In addition, the Company has agreed to comply with the following financial covenants: (1) a leverage ratio by maintaining at all times a Total Funded Debt to Adjusted EBITDA Ratio of not more than (i) 4.50:1.00 at any time from and after the Closing Date to and including December 30, 2023; (ii) 4.25:1.00 from December 31, 2023 to and including March 30, 2024; (iii) 4.00:1.00 from March 31, 2024 to and including June 29, 2024; and (iv) 3.75:1.00 thereafter; and (2) an interest coverage ratio by maintaining as of the end of each rolling four financial quarter period, an Interest Coverage Ratio (as defined in the Credit Agreement) of not less than 3.00:1.00. The required principal repayment of \$197.4 million is due in September 2026.

During the three and nine months ended September 30, 2024, and the three and nine months ended September 30, 2023 the Company was in compliance with the covenants under its credit agreements in effect at the time.

Borrowings under the 2023 Credit Agreement will accrue interest and standby fees based on the Company's Total Funded Debt to Adjusted EBITDA ratio and the availability type as follows:

Availability type or fee	If Total Funded Debt to EBITDA is:				
	Less than 2.00	Greater than or equal to 2.00 and less than 2.75	Greater than or equal to 2.75 and less than 3.50	Greater than or equal to 3.50 and less than 4.00	Greater than or equal to 4.00
Canadian dollar borrowings based on the Canadian overnight repo rate average or U.S. dollar borrowings based on SOFR and letter of credit fees (Margin)	1.50%	2.00%	2.50%	3.00%	3.50%
Canadian borrowings based on Prime Rate or Canadian or U.S. dollar borrowings based on Base Rate (Margin)	0.25%	0.75%	1.25%	1.75%	2.25%
Standby fees	0.30%	0.40%	0.50%	0.60%	0.70%

The following table summarizes Excluding-Ting's borrowings under the credit facilities (Dollar amounts in thousands of U.S. dollars):

	<u>September 30, 2024</u>	<u>December 31, 2023</u>
Revolver	\$ 197,400	\$ 211,900
Less: unamortized debt discount and issuance costs	(1,139)	(1,546)
Total Syndicated Revolver	196,261	210,354
Less: Syndicated Revolver, current portion	-	-
Syndicated Revolver, long-term portion	<u>\$ 196,261</u>	<u>\$ 210,354</u>

7. Notes Payable:

2023 Term Notes

On May 4, 2023 (the "Closing Date"), Tucows Inc. through its indirect and wholly owned subsidiaries, including Ting Fiber, LLC entered into a definitive agreement relating to a securitized financing facility related to a privately placed securitization transaction. On the Closing Date, Ting Issuer LLC, a Delaware limited liability company (the "Issuer"), a limited purpose, bankruptcy-remote, indirect wholly owned subsidiary of the Company issued (i) \$168,357,000 of its 5.95% Secured Fiber Revenue Notes, Series 2023-1, Class A-2, (ii) \$23,289,000 of its 7.40% Secured Fiber Revenue Notes, Series 2023-1, Class B and (iii) \$46,859,000 initial principal amount of 9.95% Secured Fiber Revenue Notes, Series 2023-1, Class C, together, the "2023 Term Notes". The offering was exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"). The net proceeds from the issuance of the 2023 Term Notes were \$220.5 million, after deducting a debt discount of \$11.2 million and issuance costs of \$6.7 million.

The debt discount and issuance costs of the 2023 Term Notes are being amortized using the straight-line method over a five-year period between the Closing date and the anticipated repayment date.

The 2023 Term Notes are issued under an indenture, dated May 4, 2023 (the "Base Indenture") between the Issuer and Citibank, N.A., as trustee (the "Indenture Trustee") as supplemented by the Series 2023-1 supplemental indenture dated May 4, 2023, (the "Series 2023-1 Supplement" and, together with the Base Indenture, the "Indenture"), between the Issuer and the Trustee. Interest payments on the 2023 Term Notes are payable on a monthly basis. The legal final maturity date of the 2023 Term Notes is in April of 2053, but, unless earlier prepaid to the extent permitted under the Indenture, the anticipated repayment date of the 2023 Term Notes will be in April 2028. If the Issuer has not repaid or refinanced the 2023 Term Notes prior to the anticipated repayment date, additional interest will accrue on the 2023 Term Notes in an amount equal to the greater of (A) 5.00% per annum and (B) a per annum interest rate equal to the excess, if any, by which the sum of the following exceeds the original interest rate of such 2023 Term Note (i) the yield to maturity (adjusted to a "mortgage equivalent basis" pursuant to the standards and practices of the Securities Industry and Financial Markets Association) on such anticipated repayment date of the United States Treasury Security having a term closest to 10 years, plus (ii) 5.00%, plus (iii) (x) for the 2023 Class A-2 Notes, 3.50%, (y) for the 2023 Class B Notes, 5.00% and (z) for the 2023 Class C Notes, 7.82%.

2024 Term Notes

On August 20, 2024, Tucows Inc., through its indirect and wholly owned subsidiaries, including Ting Fiber, LLC, entered into a definitive agreement relating to a securitized financing facility related to a privately placed securitization transaction. On August 20, 2024, Ting Issuer LLC, the Issuer, a limited purpose, bankruptcy-remote, indirect wholly owned subsidiary of the Company, issued: (i) \$55,000,000 of its 5.63% Secured Fiber Revenue Notes, Series 2024-1, Class A-2 (the "2024 Class A-2 Notes"), (ii) \$8,000,000 of its 6.85% Secured Fiber Revenue Notes, Series 2024-1, Class B (the "2024 Class B Notes"), and (iii) \$16,000,000 initial principal amount of 9.15% Secured Fiber Revenue Notes, Series 2024-1, (the "Class C Notes" together with the 2024 Class A-2 Notes and the 2024 Class B Notes, the "2024 Term Notes"). The Tranche C notes were not sold in this transaction, and they remain available for future sale depending on market conditions. The net proceeds from the issuance of the 2024 Term Notes were \$61.0 million, after deducting a debt discount of Nil and issuance costs of \$2.0 million.

The 2024 Term Notes were issued under the Base Indenture (the "Base Indenture") dated May 4, 2023, and the related Series 2024-1 Supplement (the "Series 2024-1 Supplement"), dated August 20, 2024, by and between the Issuer, the asset parties thereto, and Citibank, N.A., as trustee (in such capacity, the "Indenture Trustee") and securities intermediary. The Base Indenture and the Series 2024-1 Supplement allow the Issuer to issue additional series of notes in the future, subject to certain conditions set forth therein. Interest payments on the 2024 Term Notes are payable on a monthly basis. The legal final maturity date of the 2024 Term Notes is in August of 2054, but, unless earlier prepaid to the extent permitted under the Indenture, the anticipated repayment date of the 2024 Term Notes will be in August 2029.

The debt discount and issuance costs of the 2024 Term Notes are being amortized using the straight-line method over a five-year period between August 20, 2024 and the anticipated repayment date.

The 2023 Term Notes and 2024 Term Notes are secured by certain of the Company's revenue-generating assets, consisting principally of fiber-network related agreements, fiber-network assets and customer contracts (collectively, the "Securitized Assets") that are owned by certain other limited-purpose, bankruptcy-remote, wholly owned indirect subsidiaries of the Company that act as the Guarantors (collectively with the Issuer, the "Obligor") under the Base Indenture. The 2023 Term Notes and 2024 Term Notes are subject to a series of covenants, restrictions and other investor protections including (i) that the Issuer maintains specified reserve accounts to be used to make required payments in respect of the 2023 Term Notes and 2024 Term Notes, (ii) provisions relating to optional and mandatory prepayments and the related payment of specified amounts, (iii) certain indemnification payments, (iv) the guarantors comply with standard bankruptcy-remoteness covenants, including not guaranteeing or being liable for other affiliates debts or liabilities, and (v) covenants relating to recordkeeping, access to information, and similar matters.

As of September 30, 2024, the Company was in compliance with all required covenants. As of September 30, 2024, the Company's scheduled principal repayments for the 2023 Term Notes of \$238.5 million is due on April 2028 and 2024 Term Notes of \$63.0 million is due on August 2029.

During the three and nine months ended September 30, 2024, the Company recognized \$0.9 million and \$2.7 million of interest expense and during the three and nine months ended September 30, 2023, the Company recognized \$0.9 million and \$1.5 million of interest expense related to the amortization of the debt discount and issuance costs of the 2023 and 2024 Notes.

The following table summarizes Ting's borrowings under the 2023 and 2024 Term Notes (Dollar amounts in thousands of U.S. dollars):

	September 30, 2024	December 31, 2023
Principal	\$ 301,505	\$ 238,505
Less: unamortized issuance costs	(6,779)	(5,847)
Less: unamortized discount	(8,085)	(9,763)
Total notes payable	286,641	222,895
Less: notes payable, current portion	-	-
Note payable, long-term portion ⁽¹⁾	<u>\$ 286,641</u>	<u>\$ 222,895</u>

(1) During the three and nine months ended September 30, 2024, the Company capitalized \$0.3 million and \$1.0 million of interest expenses pertaining to the 2023 and 2024 Term Notes directly attributable to the development of certain AUC assets, respectively. Comparatively, for the three and nine months ended September 30, 2023, the Company capitalized \$0.2 million and \$0.2 million of interest expenses pertaining to the 2023 and 2024 Term Notes directly attributable to the development of certain AUC assets, respectively.

Restricted Cash

Under the terms of the Indenture, revenues generated from the Securitized Assets are deposited into accounts controlled by the Indenture Trustee within two business days of receipt. The Company has no access to or control of the funds held in trust until they are disbursed by the Indenture Trustee on the 20th day of each calendar month (the "Payment Date"). In accordance with the Indenture, on each Payment Date the Indenture Trustee disburses, on behalf of the Obligor, administration fees to service providers, interest payments to the noteholders, liquidity reserve top-ups (if required), and the remaining funds to accounts controlled by the Obligor. Funds held in trust with the Indenture Trustee at the reporting date are presented as "Restricted cash" on the Company's Consolidated Balance Sheet.

As of September 30, 2024 and December 31, 2023, Restricted cash totaled \$4.3 million and \$3.6 million, respectively.

Under the terms of the Indenture, the Company is also required to maintain a liquidity reserve fund equal to the sum of (A) six times the total amount of fund administration fees payable on each payment date after May 20, 2023 and (B) six times the total amount of monthly interest on the 2023 and 2024 Term Notes due and payable on each payment date after May 20, 2023. The liquidity reserve is maintained with the Indenture Trustee until the maturity of the 2023 and 2024 Term Notes and the balance is presented as "Secured notes reserve funds" on the Company's Consolidated Balance Sheet.

As of September 30, 2024 and December 31, 2023, Secured notes reserve funds totaled \$11.6 million and \$8.7 million, respectively.

8. Income Taxes:

The Company's provision for income taxes for interim periods is determined by using an estimated annual effective tax rate, adjusted for discrete items arising during the quarter. At each quarter, the Company updates the estimated annual effective tax rate and makes a year-to-date adjustment to the provision. The estimated annual effective tax rate is subject to volatility due to several factors, including accurately forecasting the Company's net income before tax, taxable income or loss, the mix of tax jurisdictions to which they relate, intercompany transactions, and changes in statutes, regulations, and case law.

For the three and nine months ended September 30, 2024, the Company recorded an income tax expense of \$3.1 million and \$6.1 million respectively, on net loss before income taxes of \$19.2 million and \$61.3 million respectively, using an estimated effective tax rate for the fiscal year ending December 31, 2024. Our effective tax rates for the three and nine months ended September 30, 2024 differ from the U.S. federal statutory rate primarily due an increase in valuation allowance on net operating losses and the impact of foreign earnings.

Comparatively, for the three and nine months ended September 30, 2023, the Company recorded an income tax recovery of \$0.8 million and \$5.6 million, on net loss before income taxes of \$23.6 million and \$78.4 million respectively, using an estimated effective tax rate for the fiscal year ending December 31, 2023 adjusted for certain minimum state taxes. Our effective tax rates for the three and nine months ended September 30, 2023 differ from the U.S. federal statutory rate primarily due to changes in valuation allowance on net operating losses and foreign tax credits, and the impact of foreign earnings.

9. Basic and Diluted Earnings (Loss) per Common Share:

The following table reconciles the numerators and denominators of the basic and diluted earnings per common share computation (Dollar amounts in thousands of US dollars, except for share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Numerator for basic and diluted loss per common share:				
Net loss for the period	\$ (22,297)	\$ (22,772)	\$ (67,385)	\$ (72,823)
Denominator for basic and diluted loss per common share:				
Basic weighted average number of common shares outstanding	10,982,820	10,874,659	10,953,778	10,852,079
Effect of outstanding stock options	-	-	-	-
Diluted weighted average number of shares outstanding	<u>10,982,820</u>	<u>10,874,659</u>	<u>10,953,778</u>	<u>10,852,079</u>
Basic and diluted loss per common share	<u>\$ (2.03)</u>	<u>\$ (2.09)</u>	<u>\$ (6.15)</u>	<u>\$ (6.71)</u>

For the three and nine months ended September 30, 2024 and September 30, 2023, the Company recorded a net loss, thus all outstanding options were considered anti-dilutive and excluded from the computation of diluted income per common share.

10. Revenue:

Significant accounting policy

The Company's revenues are derived from (a) the provisioning of retail fiber Internet services through Ting, (b) the CSP solutions and professional services through Wavelo; and from (c) domain name registration contracts, other domain related value-added services, domain sale contracts, and other advertising revenue through Tucows Domains Services. Certain revenues are disclosed under Tucows Corporate as they are considered non-core business activities including Mobile Retail Services, Transition Services Agreement ("TSA") revenue and eliminations of intercompany revenue. Amounts received in advance of meeting the revenue recognition criteria described below are recorded as deferred revenue. All products are generally sold without the right of return or refund.

Revenue is measured based on consideration specified in a contract with a customer and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

Nature of goods and services

The following is a description of principal activities – separated by reportable segments – from which the Company generates its revenue. For more detailed information about reportable segments, see Note 13 – Segment Reporting.

(a) Ting

The Company generates Ting revenues primarily through the provisioning of fixed high-speed Internet access, Ting Internet.

Ting Internet contracts provide customers Internet access at their home or business through the installation and use of our fiber optic network. Ting Internet contracts are generally prepaid and grant customers with unlimited bandwidth based on a fixed price per month basis. Because consideration is collected before the service period, revenue is initially deferred and recognized as the Company performs its obligation to provide Internet access. Though the Company does not consider the installation of fixed Internet access to be a distinct performance obligation, the fees related to installation are immaterial and therefore revenue is recognized as billed.

Ting Internet access services are primarily contracted through the Ting website, for one month at a time and contain no commitment to renew the contract following each customer's monthly billing cycle. The Company's billing cycle for all Ting Internet customers is computed based on the customer's activation date. In addition, revenues associated with the sale of Internet hardware to subscribers are recognized when title and risk of loss is transferred to the subscriber and shipment has occurred. Incentive marketing credits given to customers are recorded as a reduction of revenue.

In those cases, where payment is not received at the time of sale, revenue is not recognized at contract inception unless the collection of the related accounts receivable is reasonably assured. The Company records costs that reflect expected refunds, rebates and credit card charge-backs as a reduction of revenues at the time of the sale based on historical experiences and current expectations.

(b) Wavelo

The Company generates Wavelo revenues by providing billing and provisioning platform services to CSPs to whom we also provide other professional services.

Platform service agreements contain both platform services and professional services. Platform services offer a variety of solutions that support CSPs, including subscription and billing management, network orchestration and provisioning, and individual developer tools through a single, cloud based service. Consideration under platform service arrangements includes both a variable component that changes each month depending on the number of subscribers hosted on the platform, as well as platform payments and credits. The Company estimates platform payment and credit consideration over the term of the contract and recognizes the portion related to platform services evenly over the term of the contract. The Company recognizes variable subscriber fees, as the fees are invoiced. Platform services represent a single promise to provide continuous access (i.e. a stand-ready performance obligation) to the platform. As each month of providing access to the platform is substantially the same and the customer simultaneously receives and consumes the benefits as access is provided, the performance obligation consists of a series of distinct service periods. Professional services provided under platform service arrangements can include implementation, training, consulting or software development/modification services. Revenues related to professional services are distinct from the other promises in the contract(s) and are recognized as the related services are performed, on the basis of hours consumed. Platform payment and credit consideration is allocated between the platform services and professional services performance obligations by estimating the standalone selling price ("SSP") of each performance obligation. The Company estimates the SSP of professional services based on observable standalone sales. The SSP of platform services is derived using the residual approach by estimating the total contract consideration and subtracting the SSP of professional services. Total contract consideration is estimated at contract inception, considering any constraints that may apply and updating the estimates as new information becomes available. Intercompany revenues earned for provision of services on the ISOS and SM platforms between Wavelo and Ting are included in Wavelo's segment revenues for purposes of segment analysis, but are ultimately eliminated upon consolidation. The elimination impact is presented below in Tucows Corporate - Mobile Services and Eliminations.

Other professional services consist of professional service arrangements with platform services customers which are billed based on separate Statement of Work ("SOW") arrangements for bespoke feature development. Revenues for professional services contracted through separate SOWs are recognized at a point-in-time when the final acceptance criteria have been met.

(c) Tucows Domains

Domain registration contracts, which can be purchased for terms of one to ten years, provide our resellers and retail registrant customers with the exclusive right to a personalized internet address from which to build an online presence. The Company enters into domain registration contracts in connection with each new, renewed and transferred-in domain registration. At the inception of the contract, the Company charges and collects the registration fee for the entire registration period. Though fees are collected upfront, revenue from domain registrations are recognized ratably over the registration period as domain registration contracts contain a ‘right to access’ license of IP, which is a distinct performance obligation measured over time. The registration period begins once the Company has confirmed that the requested domain name has been appropriately recorded in the registry under contractual performance standards.

Domain related value-added services like digital certifications, WHOIS privacy, website hosting and hosted email provide our resellers and retail registrant customers with tools and additional functionality to be used in conjunction with domain registrations. All domain related value-added services are considered distinct performance obligations which transfer the promised service to the customer over the contracted term. Fees charged to customers for domain related value-added services are collected at the inception of the contract, and revenue is recognized on a straight-line basis over the contracted term, consistent with the satisfaction of the performance obligations.

The Company is an ICANN accredited registrar. Thus, the Company is the primary obligor with our reseller and retail registrant customers and is responsible for the fulfillment of our registrar services to those parties. As a result, the Company reports revenue in the amount of the fees we receive directly from our reseller and retail registrant customers. Our reseller customers maintain the primary obligor relationship with their retail customers, establish pricing and retain credit risk to those customers. Accordingly, the Company does not recognize any revenue related to transactions between our reseller customers and their ultimate retail customers.

The Company also sells the rights to the Company’s portfolio domains or names acquired through the Company’s domain expiry stream. Revenue generated from sale of domain name contracts, containing a distinct performance obligation to transfer the domain name rights under the Company’s control, is generally recognized once the rights have been transferred and payment has been received in full.

Advertising revenue is derived through domain parking monetization, whereby the Company contracts with third-party Internet advertising publishers to direct web traffic from the Company’s domain expiry stream domains and Internet portfolio domains to advertising websites. Compensation from Internet advertising publishers is calculated variably on a cost-per-action basis based on the number of advertising links that have been visited in a given month. Given that the variable consideration is calculated and paid on a monthly basis, no estimation of variable consideration is required.

Disaggregation of Revenue

The following is a summary of the Company’s revenue earned from each significant revenue stream (Dollar amounts in thousands of U.S. dollars):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Ting:				
Fiber Internet Services	\$ 15,310	\$ 12,855	\$ 43,983	\$ 37,116
Wavelo:				
Platform Services	10,075	10,697	29,935	27,537
Other Professional Services	7	377	38	1,588
Total Wavelo	10,082	11,074	29,973	29,125
Tucows Domains				
Wholesale				
Domain Services	49,871	47,657	146,527	140,734
Value Added Services	5,175	4,252	14,402	13,441
Total Wholesale	55,046	51,909	160,929	154,175
Retail				
Total Tucows Domains	9,669	9,179	28,036	26,111
	64,715	61,088	188,965	180,286
Tucows Corporate:				
Mobile services and eliminations	2,190	1,954	6,256	5,852
	\$ 92,297	\$ 86,971	\$ 269,177	\$ 252,379

One customer in the Company's Wavelo operating segment accounted for 11% (\$9.8 million) and 11% (\$29.2 million) of total revenue during the three and nine months ended September 30, 2024, respectively.

Comparatively, one customer in the Company's Wavelo operating segment accounted for 14% (\$11.1 million) and 11% (\$29.1 million) of total revenue amounting during the three and nine months ended September 30, 2023, respectively.

At September 30, 2024, one customer represented 47% of accounts receivables. As of December 31, 2023, one customer represented 39% of total accounts receivable.

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The following is a summary of the Company's cost of revenue from each significant revenue stream (Dollar amounts in thousands of U.S. dollars):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Ting:				
Fiber Internet Services	\$ 4,321	\$ 4,869	\$ 14,434	\$ 14,211
Wavelo:				
Platform Services	63	342	727	1,006
Other Professional Services	-	228	26	1,289
Total Wavelo	<u>63</u>	<u>570</u>	<u>753</u>	<u>2,295</u>
Tucows Domains:				
Wholesale				
Domain Services	40,180	38,060	117,764	112,352
Value Added Services	509	537	1,576	1,726
Total Wholesale	<u>40,689</u>	<u>38,597</u>	<u>119,340</u>	<u>114,078</u>
Retail				
Total Tucows Domains	<u>4,216</u>	<u>4,116</u>	<u>12,410</u>	<u>12,383</u>
	<u>44,905</u>	<u>42,713</u>	<u>131,750</u>	<u>126,461</u>
Tucows Corporate:				
Mobile services and eliminations	<u>3,324</u>	<u>2,565</u>	<u>8,798</u>	<u>7,783</u>
Network Expenses:				
Network, other costs	6,864	7,322	20,790	20,638
Network, depreciation of property and equipment	9,414	9,138	29,336	26,331
Network, amortization of intangible assets	366	378	1,097	1,135
Network, impairment of property and equipment	852	2,663	905	4,679
Total Network Expenses	<u>17,496</u>	<u>19,501</u>	<u>52,128</u>	<u>52,783</u>
	<u>\$ 70,109</u>	<u>\$ 70,218</u>	<u>\$ 207,863</u>	<u>\$ 203,533</u>

During the three and nine months ended September 30, 2024, Network expenses included \$0.9 million and \$0.9 million of impairment of property and equipment, respectively.

During the three and nine months ended September 30, 2023, Network expenses included impairment of property and equipment of \$2.7 million and \$4.7 million, respectively. The impairment losses related to specific network assets that were identified as being damaged and no longer in use. The full cost of the identified assets was recorded as an impairment loss.

Contract Balances

The following tables provide information about contract assets and contract liabilities (deferred revenue) from contracts with customers. The Company accounts for contract assets and liabilities on a contract-by-contract basis, with each contract presented as either a net contract asset or a net contract liability accordingly.

Some of the Company's long-term contracts with customers are billed in advance of service, such as domain contracts and some professional service contracts. Consideration received from customers related to performance obligations which have not yet been satisfied are contract liabilities and recorded as deferred revenues.

Deferred revenue primarily relates to the portion of the transaction price received in advance related to the unexpired term of domain name registrations and other domain related value-added services, on both a wholesale and retail basis, net of external commissions.

Significant changes in deferred revenue for the nine months ended September 30, 2024 were as follows (Dollar amounts in thousands of U.S. dollars):

Deferred revenue:

	<u>September 30, 2024</u>
Balance, beginning of period	\$ 148,083
Deferred revenue	181,583
Recognized revenue	<u>(173,637)</u>
Balance, end of period	<u>\$ 156,029</u>

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The Company receives consideration for long-term mobile platform service contracts, which we collect variably each month depending on the number of subscribers hosted on the platform (subject to certain minimums) as well as through certain fixed platform fees and credits. Contract assets are recorded for services delivered under long-term mobile platform services contracts, to the extent that the services delivered exceed the services which have been billed to the customer at the reporting date. Contract assets are transferred to receivables when the rights to consideration become unconditional. All contract assets transfer to receivables within three months of when they are recognized. Significant changes in the contract assets for the nine months ended September 30, 2024 were as follows (Dollar amounts in thousands of U.S. dollars):

	<u>September 30, 2024</u>
Contract assets:	
Balance, beginning of period	\$ 1,417
Consideration recognized as revenue	3,000
Transferred to receivables	<u>(4,417)</u>
Balance, end of period	<u>\$ -</u>

Remaining Performance Obligations

For retail mobile and internet access services, where the performance obligation is part of contracts that have an original expected duration of one year or less (typically one month), the Company has elected to apply a practical expedient to not disclose revenues expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied).

Although domain registration contracts are deferred over the lives of the individual contracts, which can range from one to ten years, approximately 80 percent of our deferred revenue balance related to domain contracts is expected to be recognized within the next twelve months.

Deferred revenue related to Exact hosting contracts is also deferred over the lives of the individual contracts, which are expected to be fully recognized within the next twelve months.

Professional service revenue related to platform services may be deferred over the period not exceeding the term of the contract.

11. Costs to obtain and fulfill a Contract:

Deferred costs of fulfillment

Deferred costs to fulfill contracts primarily consist of domain registration costs which have been paid to a domain registry and are capitalized as deferred costs of fulfillment. These costs are deferred and amortized over the life of the domain which generally ranges from one to ten years. The Company also defers certain technology design and data migration costs it incurs to fulfill its performance obligations contained in our platform services arrangements.

The breakdown of the movement in the deferred costs of fulfillment balance for the nine months ended September 30, 2024 is as follows (Dollar amounts in thousands of U.S. dollars).

	<u>September 30, 2024</u>
Balance, beginning of period	\$ 111,068
Deferral of costs	138,514
Amortized expense included in cost of revenue	<u>(133,353)</u>
Balance, end of period	<u>\$ 116,229</u>

12. Leases:

We lease datacenters, corporate offices and fiber-optic cables under operating leases. The Company does not have any leases classified as finance leases.

Our leases have remaining lease terms of 1 year to 20 years, some of which may include options to extend the leases for up to 5 years, and some of which may include options to terminate the leases within 1 year.

The components of lease expense were as follows (Dollar amounts in thousands of U.S. dollars):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Operating lease cost (leases with a total term greater than 12 months)	\$ 1,800	\$ 1,514	\$ 5,158	\$ 4,152
Short-term lease cost (leases with a total term of 12 months or less)	9	33	25	168
Variable lease cost	560	486	1,734	1,402
Total lease cost	<u>\$ 2,369</u>	<u>\$ 2,033</u>	<u>\$ 6,917</u>	<u>\$ 5,722</u>

Lease cost is presented in general and administrative expenses and network expenses within our consolidated statements of operations and comprehensive loss.

Information related to leases was as follows (Dollar amounts in thousands of U.S. dollars):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
<i>Supplemental cash flow information:</i>				
Operating lease - operating cash flows (fixed payments)	\$ 1,927	\$ 1,623	\$ 5,565	\$ 4,481
Operating lease - operating cash flows (liability reduction)	\$ 1,506	\$ 1,325	\$ 4,406	\$ 3,819
Change due to new right of use assets - operating leases	\$ 6,290	\$ 9,448	\$ 10,397	\$ 12,565

Supplemental balance sheet information related to leases:

	September 30, 2024	December 31, 2023
Weighted average discount rate	7.73%	6.92%
Weighted average remaining lease term	13.37 yrs	10.57 yrs

Maturity of lease liability as of September 30, 2024 (Dollar amounts in thousands of U.S. dollars):

	September 30, 2024
Remaining of 2024	\$ 1,997
2025	6,961
2026	5,215
2027	3,629
2028	2,681
Thereafter	29,143
Total future lease payments	49,626
Less imputed interest	20,126
Total	<u>\$ 29,500</u>

Operating lease payments include payments under the non-cancellable term, without any additional amounts related to options to extend lease terms that are reasonably certain of being exercised.

As of September 30, 2024, we have not entered into lease agreements that have not yet commenced.

The Company has elected to use the single exchange rate approach when accounting for lease modifications. Under the single exchange rate approach, the entire right of use asset is revalued at the date of modification in the Company's functional currency provided the re-measurement is not considered a separate contract or if the re-measurement is related to change the lease term or assessment of a lessee option to purchase the underlying asset being exercised.

13. Segment Reporting:

Reportable operating segments

We are organized and managed based on three operating segments which are differentiated primarily by their services, the markets they serve and the regulatory environments in which they operate. No operating segments have been aggregated to determine our reportable segments.

Certain revenues and expenses disclosed under the Corporate category are excluded from segment EBITDA results as they are centrally managed and not monitored by or reported to our CEO by segment, including Mobile Retail Services, eliminations of intercompany transactions, portions of Finance and Human Resources that are centrally managed, Legal and Corporate IT.

Our reportable operating segments and their principal activities consist of the following:

1. Ting - This segment derives revenue from providing retail high speed Internet access services to individuals and small businesses. Revenues are generated in the United States.
2. Wavelo – This segment derives revenue from platform and other professional services related to communication service providers, including Mobile Network Operators and Internet Service Providers, and are primarily generated in the United States.
3. Tucows Domains – This segment includes wholesale and retail domain name registration services, value added services and portfolio services. The Company primarily earns revenues from the registration fees charged to resellers in connection with new, renewed and transferred domain name registrations; the sale of retail Internet domain name registration and email services to individuals and small businesses. Domain Services revenues are attributed to the country in which the contract originates, primarily Canada and the United States.

Our segmented results include shared services allocations, including a profit margin, from Tucows Corporate for Finance, Human Resources and other technical services, to the operating units. In addition, Wavelo charges Ting a subscriber based monthly charge for services rendered. Financial impacts from these allocations and cross segment charges are eliminated as part of the Tucows Corporate results.

Key measure of segment performance

The CEO, as the chief operating decision maker, regularly reviews the operations and performance by segment. The CEO reviews segment revenue, gross margin and adjusted EBITDA (as defined below) as (i) key measures of performance for each segment and (ii) to make decisions about the allocation of resources. Sales and marketing expenses, technical operations and development expenses and general and administrative expenses and not reviewed or managed by the CEO separate from adjusted EBITDA, and are thus not included as separate measurements of segment profitability. Depreciation of property and equipment, amortization of intangible assets, impairment of indefinite life intangible assets, gain on currency forward contracts and other expense net are organized along functional lines and are not included in the measurement of segment profitability. Total assets and total liabilities are centrally managed and are not reviewed at the segment level by the CEO.

Our key measures of segment performance and their definitions are:

1. Segment gross margin - Net revenues less Direct cost of revenues attributable to each segment.
2. Segment adjusted EBITDA - segment gross margin as well as the recurring income earned on sale of transferred assets, less network expenses and certain operating expenses attributable to each segment, such as sales and marketing, technical operations and development, general and administration expenses but excludes gains and losses from unrealized foreign currency, stock-based compensation and transactions that are not indicative of on-going performance, including acquisition and transition costs. Certain revenues and expenses disclosed under the Tucows Corporate category are excluded from segment EBITDA results as they are centrally managed and not monitored by or reported to our CEO by segment, including Mobile Retail Services, eliminations of intercompany transactions, portions of Finance and Human Resources that are centrally managed, Legal and Corporate IT.

The Company believes that both segment gross margin and adjusted EBITDA measures are important indicators of the operational strength and performance of its segments, by identifying those items that are not directly a reflection of each segment's performance or indicative of ongoing operational and profitability trends. Segment gross margin and segment adjusted EBITDA both exclude depreciation of property and equipment, amortization of intangibles assets, impairment of indefinite life intangible assets that are included in the measurement of income before provision for income taxes pursuant to generally accepted accounting principles ("GAAP").

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Information by reportable segments (with the exception of disaggregated revenue, which is discussed in “Note 10 – Revenue”), which is regularly reported to the chief operating decision maker, and the reconciliations thereof to our income before taxes, are set out in the following tables (Dollar amounts in thousands of US dollars):

Reconciliation of Loss before Provision for Income Taxes to Adjusted

EBITDA (In Thousands of US Dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net Loss for the period	\$ (22,297)	\$ (22,772)	\$ (67,385)	\$ (72,823)
Less:				
Provision (recovery) for income taxes	3,074	(822)	6,068	(5,557)
Depreciation of property and equipment	9,526	9,275	29,686	26,770
Impairment and loss on disposition of property and equipment	852	2,663	905	4,679
Amortization of intangible assets	1,209	2,620	4,089	8,101
Interest expense, net	13,095	10,739	37,527	29,120
Loss on debt extinguishment	-	-	-	14,680
Stock-based compensation	1,808	2,308	5,383	6,606
Unrealized loss (gain) on foreign exchange revaluation of foreign denominated monetary assets and liabilities	(197)	340	357	254
Acquisition and other costs ¹	1,618	121	5,438	1,067
Adjusted EBITDA	<u>\$ 8,688</u>	<u>\$ 4,472</u>	<u>\$ 22,068</u>	<u>\$ 12,897</u>

¹ Acquisition and other costs represent transaction-related expenses and transitional expenses. Expenses include severance or transitional costs associated with department, operational or overall company restructuring efforts, including geographic alignments.

	Ting	Wavelo	Tucows Domains	Tucows Corporate	Consolidated Totals
For the Three Months Ended September 30, 2024					
Net revenues					
External revenues	\$ 15,310	\$ 10,010	\$ 64,715	\$ 2,262	\$ 92,297
Intersegment revenues	-	72	-	(72)	-
Total net revenues	15,310	10,082	64,715	2,190	92,297
Direct cost of revenues	4,321	63	44,905	3,324	52,613
Segment gross margin	10,989	10,019	19,810	(1,134)	39,684
Network, other costs					6,864
Network, depreciation of property and equipment					9,414
Network, amortization of intangible assets					366
Network, impairment of property and equipment					852
Gross profit					22,188
Expenses:					
Sales and marketing					15,180
Technical operations and development					4,615
General and administrative					11,485
Depreciation of property and equipment					112
Amortization of intangible assets					843
Total expenses					32,235
Loss from operations					(10,047)
Other income (expenses):					
Interest expense, net					(13,095)
Income earned on sale of transferred assets					3,853
Other expense, net					66
Total other income (expense)					(9,176)
Loss before provision for income taxes					<u>\$ (19,223)</u>
Adjusted EBITDA	<u>\$ (5,070)</u>	<u>\$ 3,429</u>	<u>\$ 11,529</u>	<u>\$ (1,200)</u>	<u>\$ 8,688</u>

	Ting	Wavelo	Tucows Domains	Tucows Corporate	Consolidated Totals
For the Three Months Ended September 30, 2023					
Net revenues					
External revenues	\$ 12,855	\$ 10,397	\$ 61,088	\$ 2,631	\$ 86,971
Intersegment revenues	-	677	-	(677)	-
Total net revenues	12,855	11,074	61,088	1,954	86,971
Direct cost of revenues	4,869	570	42,713	2,565	50,717
Segment gross margin	7,986	10,504	18,375	(611)	36,254
Network, other costs					
					7,322
Network, depreciation of property and equipment					9,138
Network, amortization of intangible assets					378
Network, impairment of property and equipment					2,663
Gross profit					16,753
Expenses:					
Sales and marketing					17,295
Technical operations and development					4,818
General and administrative					9,399
Depreciation of property and equipment					137
Amortization of intangible assets					2,242
Loss (gain) on currency forward contracts					29
Total expenses					33,920
Loss from operations					(17,167)
Other income (expenses):					
Interest expense, net					(10,739)
Income earned on sale of transferred assets					4,312
Total other income (expense)					(6,427)
Loss before provision for income taxes					\$ (23,594)
Adjusted EBITDA	\$ (12,176)	\$ 4,207	\$ 10,913	\$ 1,528	\$ 4,472

	Ting	Wavelo	Tucows Domains	Tucows Corporate	Consolidated Totals
For the Nine Months Ended September 30, 2024					
Net revenues					
External revenues	\$ 43,983	\$ 29,755	\$ 188,965	\$ 6,474	\$ 269,177
Intersegment revenues	-	218	-	(218)	-
Total Net revenues	43,983	29,973	188,965	6,256	269,177
Direct cost of revenues	14,434	753	131,750	8,798	155,735
Segment gross margin	29,549	29,220	57,215	(2,542)	113,442
Network, other costs					
					20,790
Network, depreciation of property and equipment					29,336
Network, amortization of intangible assets					1,097
Network, impairment of property and equipment					905
Gross profit					61,314
Expenses:					
Sales and marketing					48,491
Technical operations and development					14,153
General and administrative					30,491
Depreciation of property and equipment					350
Amortization of intangible assets					2,992
Total expenses					96,477
Loss from operations					(35,163)
Other income (expenses):					
Interest expense, net					(37,527)
Loss on debt extinguishment					-
Income earned on sale of transferred assets, net					10,831
Other expense, net					542
Total other income (expense)					(26,154)
Loss before provision for income taxes					\$ (61,317)
Adjusted EBITDA	\$ (21,049)	\$ 10,127	\$ 32,757	\$ 233	\$ 22,068

	Ting	Wavelo	Tucows Domains	Tucows Corporate	Consolidated Totals
For the Nine Months Ended September 30, 2023					
Net revenues					
External revenues	\$ 37,116	\$ 27,123	\$ 180,286	\$ 7,854	\$ 252,379
Intersegment revenues	-	2,002	-	(2,002)	-
Total net revenues	37,116	29,125	180,286	5,852	252,379
Direct cost of revenues	14,211	2,295	126,461	7,783	150,750
Segment gross margin	22,905	26,830	53,825	(1,931)	101,629
Network, other costs					
Network, depreciation of property and equipment					20,638
Network, amortization of intangible assets					26,331
Network, impairment of property and equipment					1,135
Gross profit					4,679
Expenses:					
Sales and marketing					49,052
Technical operations and development					14,214
General and administrative					25,674
Depreciation of property and equipment					439
Amortization of intangible assets					6,966
Loss (gain) on currency forward contracts					52
Total expenses					96,397
Loss from operations					
					(47,551)
Other income (expenses):					
Interest expense, net					(29,120)
Loss on debt extinguishment					(14,680)
Income earned on sale of transferred assets					12,971
Total other income (expense)					(30,829)
Loss before provision for income taxes					
					\$ (78,380)
Adjusted EBITDA	\$ (31,785)	\$ 7,969	\$ 31,829	\$ 4,884	\$ 12,897

(b) The following is a summary of the Company's property and equipment by geographic region (Dollar amounts in thousands of US dollars):

	September 30, 2024	December 31, 2023
Canada	\$ 932	\$ 943
United States	354,752	338,696
Europe	5	5
	\$ 355,689	\$ 339,644

(c) The following is a summary of the Company's amortizable intangible assets by geographic region (Dollar amounts in thousands of US dollars):

	September 30, 2024	December 31, 2023
Canada	\$ 1,402	\$ 1,864
United States	12,290	15,341
	\$ 13,692	\$ 17,205

(d) Valuation and qualifying accounts (Dollar amounts in thousands of US dollars):

Allowance for doubtful accounts	Balance at beginning of period	Charged to costs and expenses	Write-offs during period	Balance at end of period
Nine Months Ended September 30, 2024	\$ 511	\$ 45	\$ 59	\$ 497
Twelve months ended December 31, 2023	\$ 693	\$ -	\$ (182)	\$ 511

14. Stockholders' Deficit:

The following table summarizes stockholders' deficit transactions for the three and nine months September 30, 2024 (Dollar amounts in thousands of U.S. dollars):

	Common stock		Additional paid in capital	Retained earnings (Accumulated Deficit)	Accumulated other comprehensive income (loss)	Total stockholders' deficit
	Number	Amount				
Balances, June 30, 2024	10,957,269	\$ 35,527	\$ 16,662	\$ (85,386)	\$ 129	\$ (33,068)
Stock-based compensation ⁽¹⁾	27,969	615	1,268	-	-	1,883
Net loss	-	-	-	(22,297)	-	(22,297)
Other comprehensive income (loss)	-	-	-	-	408	408
Balances, September 30, 2024	<u>10,985,238</u>	<u>\$ 36,142</u>	<u>\$ 17,930</u>	<u>\$ (107,683)</u>	<u>\$ 537</u>	<u>\$ (53,074)</u>

	Common stock		Additional paid in capital	Retained earnings (Accumulated Deficit)	Accumulated other comprehensive income (loss)	Total stockholders' deficit
	Number	Amount				
Balances, December 31, 2023	10,903,405	\$ 34,373	\$ 14,072	\$ (40,298)	\$ 1,728	\$ 9,875
Stock-based compensation ⁽¹⁾	81,833	1,769	3,858	-	-	5,627
Net loss	-	-	-	(67,385)	-	(67,385)
Other comprehensive income (loss)	-	-	-	-	(1,191)	(1,191)
Balances, September 30, 2024	<u>10,985,238</u>	<u>\$ 36,142</u>	<u>\$ 17,930</u>	<u>\$ (107,683)</u>	<u>\$ 537</u>	<u>\$ (53,074)</u>

(1) The Company capitalizes stock-based compensation costs directly attributable to the development of qualifying assets. Qualifying assets include internal use software (IUS), assets under construction (AUC), equipment, or other long-lived assets that meet the capitalization criteria prescribed by ASC 350. During the three and nine month ended September 30, 2024, the Company capitalized \$0.1 million and \$0.2 million of stock-based compensation directly attributable to the development of certain IUS assets. Comparatively, during the three and nine months ended September 30, 2023, the Company capitalized \$0.1 million and \$0.3 million of stock-based compensation directly attributable to the development of certain IUS assets.

2024 Stock Buyback Program

On February 23, 2024, the Company announced that its Board of Directors ("Board") approved a stock buyback program to repurchase up to \$40 million of its common stock in the open market. The \$40 million buyback program commenced on February 23, 2024 and is expected to terminate on February 22, 2025. For the three and nine months ended September 30, 2024, the Company did not repurchase shares under this program.

2023 Stock Buyback Program

On February 9, 2023, the Company announced that its Board has approved a stock buyback program to repurchase up to \$40 million of its common stock in the open market. Purchases were to be made exclusively through the facilities of the NASDAQ Capital Market. The stock buyback program commenced on February 10, 2023 and terminated on February 9, 2024. During the nine months ended September 30, 2024 and September 30, 2023, the Company did not repurchase shares under this program.

2022 Stock Buyback Program

On February 10, 2022, the Company announced that its Board approved a stock buyback program to repurchase up to \$40 million of its common stock in the open market. Purchases were to be made exclusively through the facilities of the NASDAQ Capital Market. The stock buyback program commenced on February 11, 2022 and was terminated on February 10, 2023. For the nine months ended September 30, 2023 the Company did not repurchase shares under this program.

15. Share-based Payments:

2006 Tucows Equity Compensation Plan

On November 22, 2006, the shareholders of the Company approved the Company’s 2006 Equity Compensation Plan (the “2006 Plan”), which was amended and restated effective July 29, 2010 and which serves as a successor to the 1996 Plan. The 2006 Plan has been established for the benefit of the employees, officers, directors and certain consultants of the Company. The maximum number of common shares which had initially been set aside for issuance under the 2006 Plan is 1.25 million shares. On October 8, 2010, the 2006 Plan was amended to increase the number of shares set aside for issuance by an additional 0.475 million shares to 1.725 million shares. In September 2015, the 2006 Plan was amended to increase the number of shares set aside for issuance by an additional 0.75 million shares to 2.475 million shares. In November 2020, the 2006 Plan was amended to increase the number of shares set aside for issuance by an additional 1.53 million shares to 4.0 million shares. Generally, options issued under the 2006 Plan vest over a four-year period and have a term not exceeding seven years, except for automatic formula grants of non-qualified stock options, which vest after one year and have a five-year term. Prior to the September 2015 amendment to the 2006 Plan, automatic formula grants of non-qualified stock options vested immediately upon grant.

Our current equity-based compensation plans include provisions that allow for the “net exercise” of stock options by all plan participants. In a net exercise, any required payroll taxes, federal withholding taxes and exercise price of the shares due from the option holder can be paid for by having the option holder tender back to the Company a number of shares at fair value equal to the amounts due. These transactions are accounted for by the Company as a purchase and retirement of shares.

The fair value of each option grant (“Company Option”) is estimated on the date of grant using the Black-Scholes option-pricing model. Because option-pricing models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options. The Company calculates expected volatility based on historical volatility of the Company’s common shares. The expected term, which represents the period of time that options granted are expected to be outstanding, is estimated based on historical exercise experience. The Company evaluated historical exercise behavior when determining the expected term assumptions. The risk-free rate assumed in valuing the options is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option. The Company determines the expected dividend yield percentage by dividing the expected annual dividend by the market price of Tucows Inc. common shares at the date of grant.

Details of Company stock option transactions for the three and nine months ended September 30, 2024 and September 30, 2023 are as follows (Dollar amounts in thousands of U.S. dollars, except per share amounts):

	<u>Three Months Ended September 30, 2024</u>		<u>Three Months Ended September 30, 2023</u>	
	<u>Number of shares</u>	<u>Weighted average exercise price per share</u>	<u>Number of shares</u>	<u>Weighted average exercise price per share</u>
Outstanding, beginning of period	1,186,961	\$ 54.30	1,131,882	\$ 55.84
Granted	146,408	22.02	29,000	20.22
Exercised	-	-	-	-
Forfeited	(19,402)	33.78	(10,326)	34.72
Expired	(123,507)	54.87	(9,161)	65.19
Outstanding, end of period	1,190,460	45.71	1,141,395	54.83
Options exercisable, end of period	625,627	\$ 59.02	733,662	\$ 61.23
	<u>Nine Months Ended September 30, 2024</u>		<u>Nine Months Ended September 30, 2023</u>	
	<u>Number of shares</u>	<u>Weighted average exercise price per share</u>	<u>Number of shares</u>	<u>Weighted average exercise price per share</u>
Outstanding, beginning of period	1,132,632	\$ 54.61	1,036,748	\$ 59.97
Granted	323,358	21.02	166,055	25.29
Exercised	-	-	-	-
Forfeited	(92,374)	24.73	(32,500)	61.62
Expired	(173,156)	56.33	(28,908)	63.43
Outstanding, end of period	1,190,460	45.71	1,141,395	54.83
Options exercisable, end of period	625,627	\$ 59.02	733,662	\$ 61.23

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As of September 30, 2024, the exercise prices, weighted average remaining contractual life of outstanding options and intrinsic values were as follows (Dollar amounts in thousands of U.S. dollars, except per share amounts):

Exercise price	Options outstanding				Options exercisable			
	Number outstanding	Weighted average exercise price per share	Weighted average remaining contractual life (years)	Aggregate intrinsic value	Number exercisable	Weighted average exercise price per share	Weighted average remaining contractual life (years)	Aggregate intrinsic value
\$16.47 - \$19.93	57,500	\$ 19.63	5.4	\$ 72	27,500	\$ 19.78	3.9	\$ 31
\$20.25 - \$28.37	407,567	22.84	6.4	49	27,618	26.80	5.7	-
\$30.70 - \$30.74	20,000	30.71	5.2	-	5,000	30.71	5.2	-
\$40.04 - \$48.00	183,890	42.29	4.6	-	99,827	42.60	4.7	-
\$51.82 - \$59.98	55,650	55.73	1.4	-	55,650	56.33	1.4	-
\$60.01 - \$68.41	252,581	62.08	1.9	-	250,873	62.09	1.9	-
\$70.13 - \$79.51	196,772	78.42	3.2	-	146,784	78.45	3.2	-
\$80.61 - \$82.07	16,500	81.27	4.0	-	12,375	81.27	4.0	-
	<u>1,190,460</u>	<u>\$ 45.71</u>	<u>4.3</u>	<u>\$ 121</u>	<u>625,627</u>	<u>\$ 59.02</u>	<u>2.9</u>	<u>\$ 31</u>

Total unrecognized compensation cost relating to unvested stock options at September 30, 2024, prior to the consideration of expected forfeitures, is approximately \$5.6 million and is expected to be recognized over a weighted average period of 2.9 years.

2022 Wavelo Equity Compensation Plan

On November 9, 2022 the Board of Wavelo approved Wavelo's Equity Compensation Plan (Wavelo ECP), which has been established for the benefit of the employees, officers, directors and certain consultants of Wavelo or Tucows. The Wavelo stock options were introduced in order to provide variable compensation that helps retain executives and ensures that our executives' interests are aligned with those stakeholders of the business to grow long-term value. Wavelo is a wholly owned subsidiary of Tucows. The maximum number of Wavelo common shares which have been set aside for issuance under the 2022 Plan is 25 million shares, currently there are 100 million shares outstanding. The options issued under the ECP primarily vest over a period of three years and have a 7-year term. For the initial grants under the plan, the first 25% became exercisable within three months and vesting ratably monthly thereafter, subsequently for three years. Compensation costs for awards of stock-based compensation settled in shares are determined based on the fair value of the share-based instrument at the time of the grant and are recognized as expense over the vesting period of the share-based instrument. The Company recognizes forfeitures as they occur.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. Because option-pricing models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options. The Company calculates expected volatility based on the actual volatility of comparable publicly traded companies. The risk-free rate assumed in valuing the options is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option. The Company assumes the expected dividend yield to be zero.

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Details of Wavelo's stock option transactions for the three and nine months ended September 30, 2024 and September 30, 2023 are as follows (Dollar amounts in thousands of U.S. dollars, except per share amounts):

	<u>Three Months Ended September 30, 2024</u>		<u>Three Months Ended September 30, 2023</u>	
	<u>Number of shares</u>	<u>Weighted average exercise price per share</u>	<u>Number of shares</u>	<u>Weighted average exercise price per share</u>
Outstanding, beginning of period	16,779,846	\$ 1.30	16,463,965	\$ 1.27
Granted	341,500	1.78	92,000	1.74
Exercised	-	-	-	-
Forfeited	(864,167)	1.28	(36,667)	1.27
Expired	(154,701)	1.27	(15,937)	1.27
Outstanding, end of period	16,102,478	1.31	16,503,361	1.27
Options exercisable, end of period	<u>9,602,704</u>	<u>\$ 1.27</u>	<u>6,748,600</u>	<u>\$ 1.27</u>

	<u>Nine Months Ended September 30, 2024</u>		<u>Nine Months Ended September 30, 2023</u>	
	<u>Number of shares</u>	<u>Weighted average exercise price per share</u>	<u>Number of shares</u>	<u>Weighted average exercise price per share</u>
Outstanding, beginning of period	16,333,233	\$ 1.27	15,975,528	\$ 1.27
Granted	1,261,000	1.75	767,500	1.33
Exercised	-	-	-	-
Forfeited	(1,166,121)	1.29	(207,413)	1.27
Expired	(325,634)	1.27	(32,254)	1.27
Outstanding, end of period	16,102,478	1.31	16,503,361	1.27
Options exercisable, end of period	<u>9,602,704</u>	<u>\$ 1.27</u>	<u>6,748,600</u>	<u>\$ 1.27</u>

As of September 30, 2024, the exercise prices, weighted average remaining contractual life of outstanding options and intrinsic values were as follows (Dollar amounts in thousands of U.S. dollars, except per share amounts):

<u>Exercise price</u>	<u>Options outstanding</u>				<u>Options exercisable</u>			
	<u>Number outstanding</u>	<u>Weighted average exercise price per share</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Aggregate intrinsic value</u>	<u>Number exercisable</u>	<u>Weighted average exercise price per share</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Aggregate intrinsic value</u>
\$0 - \$1.78	16,102,478	\$ 1.31	5.1	\$ 7,533	9,602,704	\$ 1.27	5.0	\$ 4,890
	<u>16,102,478</u>	<u>\$ 1.31</u>	<u>5.1</u>	<u>\$ 7,533</u>	<u>9,602,704</u>	<u>\$ 1.27</u>	<u>5.0</u>	<u>\$ 4,890</u>

Total unrecognized compensation cost relating to unvested stock options at September 30, 2024, prior to the consideration of expected forfeitures, is approximately \$3.4 million and is expected to be recognized over a weighted average period of 2.0 years.

2022 Ting Equity Compensation Plan

On January 16, 2023, the Board of Ting Fiber, LLC approved Ting's Equity Compensation Plan (Ting ECP), which has been established for the benefit of the employees, officers, directors and certain consultants of Ting or Tucows. The Ting stock options were introduced in order to provide variable compensation that helps retain executives and ensure that our executives' interests are aligned with those stakeholders of the business to grow the long-term value. The maximum number of Ting common units that have been set aside for issuance under the plan is 10 million units, currently there are 100 million common units outstanding. Generally, options issued under the ECP vest over a four-year period and have a term not exceeding seven years. Compensation costs for awards of stock-based compensation settled in shares are determined based on the fair value of the share-based instrument at the time of the grant and are recognized as expense over the vesting period of the share-based instrument.

The Company calculates expected volatility based on the actual volatility of comparable publicly traded companies. The risk-free rate assumed in valuing the options is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option. The Company assumes the expected dividend yield to be zero.

Details of Ting's stock option transactions for the three and nine months ended September 30, 2024 and September 30, 2023 are as follows (Dollar amounts in thousands of U.S. dollars, except per share amounts):

	Three Months Ended September 30, 2024		Three Months Ended September 30, 2023	
	Number of shares	Weighted average exercise price per share	Number of shares	Weighted average exercise price per share
Outstanding, beginning of period	6,969,256	\$ 6.00	7,428,662	\$ 6.00
Granted	-	-	-	6.00
Exercised	-	-	-	-
Forfeited	(350,269)	6.00	(62,839)	6.00
Expired	-	-	(49,662)	6.00
Outstanding, end of period	6,618,987	6.00	7,316,161	6.00
Options exercisable, end of period	4,200,364	\$ 6.00	2,656,504	\$ 6.00

	Nine Months Ended September 30, 2024		Nine Months Ended September 30, 2023	
	Number of shares	Weighted average exercise price per share	Number of shares	Weighted average exercise price per share
Outstanding, beginning of period	7,504,269	\$ 6.00	-	\$ -
Granted	123,000	6.00	7,594,000	6.00
Exercised	-	-	-	-
Forfeited	(798,249)	6.00	(213,650)	6.00
Expired	(210,033)	6.00	(64,189)	6.00
Outstanding, end of period	6,618,987	6.00	7,316,161	6.00
Options exercisable, end of period	4,200,364	\$ 6.00	2,656,504	\$ 6.00

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As of September 30, 2024, the exercise prices, weighted average remaining contractual life of outstanding options and intrinsic values were as follows (Dollar amounts in thousands of U.S. dollars, except per share amounts):

Exercise price	Options outstanding				Options exercisable			
	Number outstanding	Weighted average exercise price per share	Weighted average remaining contractual life (years)	Aggregate intrinsic value	Number exercisable	Weighted average exercise price per share	Weighted average remaining contractual life (years)	Aggregate intrinsic value
\$0 - \$6.00	6,618,987	\$ 6.00	5.5	\$ -	4,200,364	\$ 6.00	5.5	\$ -
	<u>6,618,987</u>	<u>\$ 6.00</u>	<u>5.5</u>	<u>\$ -</u>	<u>4,200,364</u>	<u>\$ 6.00</u>	<u>5.5</u>	<u>\$ -</u>

Total unrecognized compensation cost relating to unvested stock options at September 30, 2024, prior to the consideration of expected forfeitures, is approximately \$0.4 million and is expected to be recognized over a weighted average period of 1.9 years.

The Company recorded total stock-based compensation expense of \$1.8 million and \$5.4 million for the three and nine months ended September 30, 2024, and \$2.3 million and \$6.6 million for three and nine months ended September 30, 2023, respectively. The Company details of the stock-based compensation expense are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Company options	\$ 1,429	\$ 1,819	\$ 4,104	\$ 4,999
Wavelo options	422	505	1,380	1,561
Ting options	32	50	144	296
Capitalized stock based compensation	(75)	(66)	(245)	(250)
Total stock based compensation expense	<u>\$ 1,808</u>	<u>\$ 2,308</u>	<u>\$ 5,383</u>	<u>\$ 6,606</u>

During the three and nine months ended September 30, 2024, the Company capitalized \$0.1 million and \$0.2 million of stock based compensation directly attributable to the development of certain IUS assets, respectively.

Comparatively during the three and nine months ended September 30, 2023, the Company capitalized \$0.1 million and \$0.3 million of stock based compensation directly attributable to the development of certain IUS assets.

16. Fair Value Measurement:

For financial assets and liabilities recorded in our financial statements at fair value we utilize a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's own assumptions used to measure assets and liabilities at fair value. The classification of a financial asset or liability within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Equity investments without readily determinable fair value include ownership rights that do not provide the Company with control or significant influence. Such equity investments are recorded at cost, less any impairment, and adjusted for subsequent observable price changes as of the date that an observable transaction takes place. Subsequent adjustments are recorded in other income (expense), net.

The following table provides a summary of the fair values of the Company's derivative instruments measured at fair value on a recurring basis as of September 30, 2024 (Dollar amounts in thousands of U.S. dollars):

	September 30, 2024			
	Fair Value Measurement Using			Assets at Fair value
	Level 1	Level 2	Level 3	
Derivative instrument asset, net	\$ -	\$ 708	\$ -	\$ 708
Total asset, net	<u>\$ -</u>	<u>\$ 708</u>	<u>\$ -</u>	<u>\$ 708</u>

The following table provides a summary of the fair values of the Company's derivative instruments measured at fair value on a recurring basis as of December 31, 2023 (Dollar amounts in thousands of U.S. dollars):

	December 31, 2023			
	Fair Value Measurement Using			Assets at Fair value
	Level 1	Level 2	Level 3	
Derivative instrument asset, net	\$ -	\$ 2,277	\$ -	\$ 2,277
Total assets, net	<u>\$ -</u>	<u>\$ 2,277</u>	<u>\$ -</u>	<u>\$ 2,277</u>

17. Other income:

On August 1, 2020, the Company entered into an Asset Purchase Agreement (the "Purchase Agreement"), by and between the Company and DISH Wireless L.L.C. ("Echostar" DISH's post-merger parent). Under the Purchase Agreement and in accordance with the terms and conditions set forth therein, the Company sold to Echostar its mobile customer accounts that are marketed and sold under the Ting brand (other than certain customer accounts associated with one network operator) ("Transferred Assets"). For a period of 10 years following the execution of the Purchase Agreement, Echostar will pay a monthly fee to the Company generally equal to an amount of net revenue received by Echostar in connection with the transferred customer accounts minus certain fees and expenses, as further set forth in the Purchase Agreement. The Company earned the amounts noted in the table below under the Purchase Agreement during the three and nine months ended September 30, 2024 and September 30, 2023.

(Dollar amounts in thousands of U.S. dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Income earned on sale of transferred assets	\$ 3,853	\$ 4,312	\$ 10,831	\$ 12,971

The following table provides additional information relating to Interest expense, net (Dollar amounts in thousands of US dollars):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest expense	\$ (13,802)	\$ (13,740)	\$ (39,912)	\$ (32,281)
Interest income	707	3,001	2,385	3,161
Interest expense, net	\$ (13,095)	\$ (10,739)	\$ (37,527)	\$ (29,120)

18. Redeemable preferred units:

The Company entered into a Series A Preferred Unit Purchase Agreement (the "Unit Purchase Agreement") with Generate TF Holdings, LLC, a Delaware limited liability company ("Generate") on August 8, 2022 (the "Effective Date"), and closed the transaction contemplated thereby on August 11, 2022 (the "Transaction Close") pursuant to which the Company issued and sold 10,000,000 units of its Series A Preferred Units to Generate at a cash purchase price of \$6.00 per unit ("Initial Funding"). Under the Unit Purchase Agreement, after the Transaction Close until the third anniversary of the Effective Date (the "End Date") the Company will, upon the achievement of pre-determined operational and financial drawdown milestones issue and sell in subsequent fundings an aggregate of 23,333,333.34 units of additional Series A Preferred Units on the same terms and conditions as in the Initial Funding ("Milestone Fundings"). The investment provided the Company with \$60 million of capital upon the Initial Funding, with an additional \$140 million of capital commitments available to the Company over the subsequent three-year period if the milestones are achieved. From the Transaction Close until the earlier of (i) the End Date and (ii) the date upon which Generate has paid \$140 million pursuant to Milestone Fundings, the Company is required to pay Generate a standby fee at a rate of 0.50% of any portion of the unpaid \$140 million capital commitment which will be paid quarterly. The Series A Preferred Units accrue a preferred return to the holder at a rate of 15% per annum, subject to adjustments based on the value of approved projects under the Equity Capital Contribution Agreement (the "ECC Agreement"). The preferred return on the Series A Preferred Units purchased under the Unit Purchase Agreement may be adjusted down to a floor of 13% or up to a ceiling of 17% per annum based on commitment and contribution amounts under the ECC Agreement. The preferred return accrues daily, and is compounded quarterly. The preferred return accrued during the first two years is not payable unless and until the Series A Preferred Units are redeemed. The preferred return accrued after the second anniversary of the Transaction Close is payable by the Company quarterly. If the Company should redeem the Series A Preferred Units prior to the fourth anniversary of the Transaction Close, the Company is required to pay a make-whole premium, which is calculated as the cumulative and compounded preferred return that would have accrued (at the preferred return rate in effect immediately prior to such redemption) on the outstanding unreturned capital balance with respect to the Series A Preferred Units through and including the six-year anniversary of the Transaction Close had such Series A Preferred Unit not been redeemed, discounted at an agreed upon treasury rate plus 50 basis points, compounded quarterly (the "Make-Whole-Premium").

The Company's Amended and Restated Limited Liability Company Agreement (the "LLC Agreement"), states that in the event that (i) the Company fails to pay the preferred return for two consecutive quarters, (ii) the Company fails to pay the redemption price in connection with any redemption of the Series A Preferred Units, (iii) the Company materially breaches its obligations under the LLC Agreement, (iv) there occurs an event of default (or similar term) under Tucows Inc.'s or its affiliates' credit agreement, (v) there occurs material breach if not cured or otherwise remedied in accordance with the terms of any credit facility (taking into account any cure periods), by the Company or any of its Subsidiaries under any debt facilities where the Company or any of its Subsidiaries incurs indebtedness for borrowed money, or (vi) the Company breaches any covenant under the Unit Purchase Agreement, Generate has the option to either (i) convert Series A Preferred Units based on the Redemption Price into common units of the Company based on the then applicable conversion price; or (ii) compelling the sale of certain assets of the Company or its subsidiaries of equal value to the Redemption Price.

Under the terms of the LLC Agreement, the Company is mandatorily required to redeem the redeemable preferred units prior to the earliest of (i) a sale of the Company, (ii) a public offering, (iii) an event of default (or similar term) by Tucows Inc. or any of its affiliates under, (iv) a material breach if not cured or otherwise remedied in accordance with the terms of any credit facility (taking into account any cure periods), by the Company or any of its Subsidiaries under any debt facilities where the Company or any of its Subsidiaries incurs indebtedness for borrowed money, (v) the Company failed to pay the preferred return for two consecutive quarters, and (vi) the six-year anniversary of the Transaction Close. Due to the fact that the redeemable preferred units are mandatorily redeemable, the redeemable preferred units are classified as a liability in the accompanying consolidated balance sheets. The liability was initially recorded at fair value and subsequently recorded at the present value of the settlement amount, which includes the preferred return payments required until the instrument's expected maturity on the sixth anniversary of the Transaction Close, August 10, 2028 using the implicit rate of return of the instrument, 15%. The Company recorded \$2.1 million and \$10.7 million of accretion expense on the redeemable preferred units for the three and nine months ended September 30, 2024, and comparatively, \$4.0 million and \$12.4 million for the three and nine months ended September 30, 2023 as interest expense, net in the accompanying consolidated statements of operations and comprehensive loss.

The Company incurred \$0.9 million of legal fees related to the redeemable preferred unit issuance, which have been reflected as a reduction to the carrying amount of the redeemable preferred unit balance and will be amortized to interest expense, net in the accompanying consolidated statements of operations and comprehensive loss over the expected six-year term instrument.

On January 30, 2023, the Company issued and sold an additional 5,000,000 units of its Series A Preferred Units to Generate at a cash purchase price of \$6.00 per unit. The Milestone Funding provided the Company with an additional \$30.0 million of capital.

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On April 21, 2023, the Company issued and sold an additional 833,333 units of Series A Preferred Units to Generate at a cash purchase price of \$6.00 per unit pursuant to the Unit Purchase Agreement. The Milestone Funding provided the Company with an additional \$5.0 million of capital.

On May 4, 2023, Ting Fiber, LLC executed the Ting Class C Notes - Redemption Agreement (the "Redemption Agreement") and the Ting Class C Notes - Side Letter (the "Side Letter Agreement") with Generate. Under the terms of terms of the Redemption Agreement, Ting Fiber, LLC redeemed 5,173,067 Series A Preferred Units held by Generate at \$6 per unit, totaling a redemption of \$31 million. The terms of the redemption were modified by the Side Letter Agreement, which granted a 30% discount on the make-whole premium which amounted to \$14.7 million for a total redemption price of \$45.7 million inclusive of the make-whole premium. The Company has accounted for the redemption of the preferred units as an extinguishment of debt in accordance with ASC 470 - Debt. The resulting loss on debt extinguishment has been recognized as 'Other Income/Expense' in the financial statements. Terms of the Side Letter Agreement also preclude Ting Fiber, LLC from issuing additional Series A Preferred Units for 365 days from the closing of the Redemption Agreement during which time standby fees will be suspended. As of September 30, 2024, Generate's future capital commitment under the Unit Purchase Agreement to \$108.5 million.

As of September 30, 2024, the redeemable preferred units have an aggregate liquidation preference of \$91.5 million, plus a Make-Whole Premium should redemption occur before the fourth anniversary of the Transaction Date and are senior to the Ting Fiber, LLC common units with respect to sale, dissolution, liquidation or winding up of the Ting Fiber, LLC.

The following table summarizes the Company's borrowings under the Unit Purchase Agreement (Dollar amounts in thousands of U.S. dollars):

	September 30, 2024	December 31, 2023
Opening Balance	\$ 111,899	\$ 91,396
Add: Milestone Funding	-	35,000
Add: Accretion of redeemable preferred units ⁽¹⁾	10,657	16,541
Add: Loss on debt extinguishment	-	14,680
Less: Redemption of preferred units	-	(45,718)
Redeemable preferred shares balance	122,556	111,899
Less: Deferred preferred financing costs	(428)	(509)
Total Redeemable preferred units	<u>\$ 122,128</u>	<u>\$ 111,390</u>

(1) The Company capitalizes interest expenses directly attributable to the development of qualifying assets. Qualifying assets include internal use software (IUS), assets under construction (AUC), equipment, or other long-lived assets that meet the capitalization criteria prescribed by ASC 350. During the three and nine months ended September 30, 2024, the Company capitalized \$0.3 million and \$1.1 million and for the three and nine months ended September 30, 2023, the Company capitalized \$0.5 million and \$3.0 million of interest expenses pertaining to the redeemable preferred units directly attributable to the development of certain AUC assets, respectively.

The following table summarizes our scheduled repayments as of September 30, 2024 (Dollar amounts in thousands of U.S. dollars):

Remainder of 2024	\$ 4,800
2025	18,639
2026	18,536
2027	18,639
2028	135,474
	<u>\$ 196,088</u>

19. Restructuring Costs:

On February 7, 2024, Ting committed to the February 2024 workforce reduction which aimed to realign the Company's operational structure within the Ting operating segment and reduce Ting's workforce by 13%, or 7% of the Company's total workforce, to better align with strategic objectives (the "February 2024 workforce reduction"). The February 2024 workforce reduction was designed to streamline operations and reduce operating expenses within the Ting operating segment. Substantially all of the employees impacted by the workforce reduction were notified on February 7, 2024 and have since exited the Company.

During the three and nine months ended September 30, 2024, the Company incurred \$0.2 million and \$3.0 million in costs related to this restructuring, which were accounted for under *ASC 420 - Exit or Disposal Cost Obligations*. These costs associated with the February 2024 workforce reduction predominantly consisted of one-time termination benefits for the terminated employees associated with the restructuring, and to a lesser extent, continuation of benefits and outplacement costs.

The costs are recorded within the following financial statement captions on the Consolidated Statements of Operations and Comprehensive Loss (Dollar amounts in thousands of U.S. dollars):

Expense Presentation	Three Months Ended September 30, 2024	For the Nine Months Ended September 30, 2024
Direct cost of revenue	\$ 47	\$ 484
Sales and marketing	63	2,117
Network, other costs	35	114
General administrative	44	300
	<u>\$ 189</u>	<u>\$ 3,015</u>

All of the costs associated with the February 2024 workforce reduction were charged to the Ting operating segment.

The components of the restructuring charges were as follows (Dollar amounts in thousands of U.S. dollars):

Cost Description	Three Months Ended September 30, 2024	For the Nine Months Ended September 30, 2024
One-time pay	\$ 122	\$ 2,401
Continuation of benefits	19	355
Outplacement costs	48	259
Total restructuring charges	<u>\$ 189</u>	<u>\$ 3,015</u>

The liability for the February 2024 workforce reduction was included in Accrued liabilities in the consolidated balance sheet, and the following tables summarize the related activity for the February 2024 workforce reduction for the three and nine months ended September 30, 2024 (Dollar amounts in thousands of U.S. dollars):

Cost Description	As of June 30, 2024	Charges for the For the Three Months Ended September 30, 2024	Cash payments made in the For the Three Months Ended September 30, 2024	Balances as of September 30, 2024
One-time pay	\$ -	\$ 122	\$ (122)	\$ -
Continuation of benefits	-	19	(19)	-
Outplacement costs	16	48	(42)	22
Total	<u>\$ 16</u>	<u>\$ 189</u>	<u>\$ (183)</u>	<u>\$ 22</u>

Cost Description	As of December 31, 2023	Charges for the For the Nine Months Ended September 30, 2024	Cash payments made in the For the Nine Months Ended September 30, 2024	Balances as of September 30, 2024
One-time pay	\$ -	\$ 2,401	\$ (2,401)	\$ -
Continuation of benefits	-	355	(355)	-
Outplacement costs	-	259	(237)	22
Total	<u>\$ -</u>	<u>\$ 3,015</u>	<u>\$ (2,993)</u>	<u>\$ 22</u>

On October 30, 2024, Ting undertook an October 2024 workforce reduction to reflect the ongoing operational and financial prioritizations of the Ting business and to lower the Company's year-over-year operating expenses. For more detailed information about the event, see Note 21 - Subsequent Events.

20. Contingencies:

From time to time, the Company has legal claims and lawsuits in connection with its ordinary business operations.. The Company vigorously defends such claims. While the final outcome with respect to any actions or claims outstanding or pending as of June 30, 2023 cannot be predicted with certainty, management does not believe that the resolution of these claims, individually or in the aggregate, will have a material adverse effect on the Company's financial position.

As of September 30, 2024, we have an ongoing billing dispute with SiFi Networks Fullerton, LLC, our lease partner in Fullerton, California, regarding the rates and methodology under which it can invoice our Ting Fiber division for our operations in Fullerton, California. The parties are in discussion over resolution of their dispute. At this time we believe the probability that this dispute will have a material adverse effect on our business, operating results, or financial condition is remote. The Company has analyzed this matter in accordance with ASC 450-20 and, in accordance with the definition of probable loss described therein, it has concluded that no accrual is necessary at this time.

21. Subsequent events:

a. October 2024 workforce reduction

On October 30, 2024, Ting Fiber LLC ("Ting") announced a capital efficiency plan (the "Plan") to reflect the ongoing operational and financial prioritization of the Ting business and to lower the Company's year-over-year operating expenses, which impacted approximately 42% of Ting's workforce or 17% of the Company's total workforce.

The Company estimates that it will incur non-recurring charges of approximately \$7.4 million in connection with the Plan, primarily consisting of severance payments, notice pay, employee benefits contributions and outplacement costs. The Company expects that the implementation of the headcount reductions and majority of the charges associated with the Plan and cash payments will be incurred in the fourth quarter of fiscal 2024.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains, in addition to historical information, forward-looking statements by us with regard to our expectations as to financial results and other aspects of our business that involve risks and uncertainties and may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "may," "should," "anticipate," "believe," "plan," "estimate," "expect," and "intend," and other similar expressions are intended to identify forward-looking statements. The forward-looking statements contained in this report include statements regarding, among other things, the competition we expect to encounter as our business develops and competes in a broader range of Internet services, the Company's foreign currency requirements, specifically for the Canadian dollar and Euro; Wavelo, and Ting subscriber growth and retention rates; the number of new, renewed and transferred-in domain names we register as our business develops and competes; the effect of a potential generic top level domain ("gTLD") expansion by the Internet Corporation for Assigned Names and Numbers ("ICANN") on the number of domains we register and the impact it may have on related revenues; our belief regarding the underlying platform for our domain services; our expectation regarding the trend of sales of domain names; our belief that, by increasing the number of services we offer, we will be able to generate higher revenues; our expectation regarding litigation; the potential impact of current and pending claims on our business; our valuations of certain deferred tax assets; our expectation to collect our outstanding receivables, net of our allowance for doubtful accounts; our expectation regarding fluctuations in certain expense and cost categories; our expectations to obtain additional financing to further accelerate the Ting Internet footprint while sustaining liquidity; our expectations regarding our unrecognized tax; our expectations regarding cash from operations to fund our business; the timing, implementation and impact of the capital efficiency plan; the impact of cancellations of or amendments to market development fund programs under which we receive funds; our expectation regarding our ability to manage realized gains/losses from foreign currency contracts; our partnership with an affiliate of Generate TF Holdings, LLC, a Delaware limited liability company ("Generate"); and general business conditions and economic uncertainty. These statements are based on management's current expectations and are subject to a number of uncertainties and risks that could cause actual results to differ materially from those described in the forward-looking statements. Many factors affect our ability to achieve our objectives and to successfully develop and commercialize our services including:

- Our ability to continue to generate sufficient working capital to meet our operating requirements;
- Our ability to service our debt commitments and preferred unit commitments;
- Our ability to maintain a good working relationship with our vendors and customers;
- The ability of vendors to continue to supply our needs;
- Actions by our competitors;
- Our ability to attract and retain qualified personnel in our business and address operational efficiencies, such as the 2024 Workforce Reductions;
- Our ability to effectively manage our business;
- The effects of any material impairment of our goodwill or other indefinite-lived intangible assets;
- Our ability to obtain and maintain approvals from regulatory authorities on regulatory issues;
- Our ability to invest in the build-out of fiber networks into selected towns and cities to provide Internet access services to residential and commercial customers while maintaining the development and sales of our established services;
- Adverse tax consequences such as those related to changes in tax laws or tax rates or their interpretations, including with respect to the impact of the Tax Cuts and Jobs Act of 2017 and the Organization for Economic Cooperation and Development ("OECD") model global minimum tax rules;
- Our ability to effectively respond or comply with new data protection regulations and any conflicts that may arise between such regulations and our ICANN contractual requirements;
- The application of business judgment in determining our global provision for income taxes, deferred tax assets or liabilities or other tax liabilities given that the ultimate tax determination is uncertain;
- Our ability to effectively integrate acquisitions;
- Our ability to monitor, assess and respond to changing geopolitical and economic environments including rising inflation and interest rates;
- Our ability to collect anticipated payments from Echostar in connection with the 10-year payment stream that is a function of the margin generated by the transferred subscribers over a 10-year period pursuant to the terms of the Asset Purchase Agreement dated August 1, 2020 between the Company and DISH Wireless LLC ("Echostar" DISH's post-merger parent) (the "Echostar Purchase Agreement");
- Our ability to meet the operational and financial drawdown milestones under the Unit Purchase Agreement with Generate, which provides the Company with the ability to obtain additional financing to invest in the expansion of fiber networks;
- Our ability to maintain compliance with the operational and financial covenants of the 2023 Notes as defined in "Note 7 - Notes Payable" of the Notes to the Consolidated Financial Statements included in Part I, of this report, which provides the Company with financing to invest in the expansion of fiber networks;

- Our ability to obtain further financing, if needed, to fund continued investment in the expansion of our fiber networks;
- Our ability to maintain the safety and security of our systems and data;
- Pending or new litigation;
- Factors set forth under the caption “Item 1A Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 filed with the SEC on April 1, 2024 (the “2023 Annual Report”) and in “Item 1A Risk Factors” in Part II of this report.

This list of factors that may affect our future performance and financial and competitive position and the accuracy of forward-looking statements is illustrative, but it is by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty. All forward-looking statements included in this document are based on information available to us as of the date of this document, and we assume no obligation to update these cautionary statements or any forward-looking statements, except as required by law. These statements are not guarantees of future performance.

We qualify all the forward-looking statements contained in this Quarterly Report on Form 10-Q by the foregoing cautionary statements.

OVERVIEW

Our mission is to provide simple useful services that help people unlock the power of the Internet.

We accomplish this by reducing the complexity of our customers’ experience as they access the Internet (at home or on the go) and while using Internet services such as domain name registration, email and other Internet related services. We are organized into three operating and reporting segments - Ting, Wavelo, and Tucows Domains. Each segment is differentiated primarily by their services, the markets they serve and the regulatory environments in which they operate. The Ting segment contains the operating results of our retail high speed Internet access operations, including its wholly owned subsidiaries - Cedar and Simply Bits. The Wavelo segment includes our platform and professional services offerings, as well as the billing solutions to Internet services providers (“ISPs”). Tucows Domains includes wholesale and retail domain name registration services, as well as value added services derived through our OpenSRS, eNom, Ascio, EPAG and Hover brands.

Our Chief Executive Officer (CEO), who is also our chief operating decision maker, reviews the operating results of Ting, Wavelo and Tucows Domains as three distinct segments in order to make key operating decisions as well as evaluate segment performance. Certain revenues and expenses disclosed under the Corporate category are excluded from segment earnings before interest, tax, depreciation and amortization (“EBITDA”) results as they are centrally managed and not monitored by or reported to our CEO by segment, including retail mobile services, the 10-year payment stream on transferred legacy Mobile subscribers, eliminations of intercompany transactions, portions of Finance and Human Resources, Legal and Corporate Information Technology (“IT”) shared services.

For the three months ended September 30, 2024 and September 30, 2023, we reported net revenue of \$92.3 million and \$87.0 million, respectively.

For the nine months ended September 30, 2024 and September 30, 2023, we reported net revenue of \$269.2 million and \$252.4 million, respectively.

Ting

Ting and its wholly owned subsidiaries - Cedar and Simply Bits includes the provision of fixed high-speed Internet access services to select towns throughout the United States, with further expansion underway to both new and existing markets. Our primary sales channel is through the Ting website. The primary focus of this segment is to provide reliable Gigabit Internet services to consumer and business customers. Revenues are all generated in the U.S. and are provided on a monthly basis and have no fixed contract terms.

As of September 30, 2024, Ting Internet had access to 132,000 owned infrastructure serviceable addresses, 41,000 partner infrastructure serviceable addresses and 50,000 active subscribers under its management; compared to having access to 114,000 owned infrastructure serviceable addresses, 25,000 partner infrastructure serviceable addresses and 41,000 active subscribers under its management as of September 30, 2023. These figures exclude any changes in serviceable addresses and accounts attributable to Simply Bits.

On February 7, 2024 Ting committed to the February 2024 workforce reduction, which aimed to realign the Company's operational structure within the Ting operating segment and reduce Ting's workforce by 13%, or 7% of the Company's total workforce, to better support strategic objectives. The February 2024 workforce reduction was designed to streamline operations and reduce operating expenses within the Ting operating segment. Substantially all of the employees impacted by the workforce reduction were notified on February 7, 2024 and have since exited the Company. The Company incurred non-recurring charges of approximately \$2.6 million in connection with the workforce reduction, primarily consisting of severance payments, notice pay, employee benefits contributions and outplacement costs.

On October 30, 2024, Ting undertook a capital efficiency plan (the “Capital Efficiency Plan”) to reflect the ongoing operational and financial prioritization of the Ting business and to lower the Company's year-over-year operating expenses, which impacted approximately 42% of Ting's workforce or 17% of the Company's total workforce. The Company estimates that it will incur non-recurring charges of approximately \$7.4 million in connection with the Plan, primarily consisting of severance payments, notice pay, employee benefits contributions and outplacement costs. The Company expects that the implementation of the headcount reductions and majority of the charges associated with the Capital Efficiency Plan and cash payments will be incurred in the fourth quarter of fiscal 2024.

The Company expects that both the 2024 workforce reductions and Capital Efficiency Plan will realize personnel and related expense (net of capitalization) savings with the majority of the savings in sales and marketing, including related network support functions, followed by smaller impacts in technical operations and development, direct cost of revenues, network, general and administrative, and other costs. In Fiscal 2024 the realized savings will be partially offset by costs associated with both plans. These costs referenced above are classified as transitional and are excluded in our Adjusted EBITDA. Please see discussion of Adjusted EBITDA as well as the Adjusted EBITDA reconciliation to net income in the Results of Operations section below. The expected savings may also be offset by any continued spending related to Ting's expansion in serviceable markets, which may require incremental hiring for different roles, teams or markets; potential inflationary increases to salary, wages and other employee related costs that may be evaluated as necessary by management to retain and attract the best talent; or changes to the realization of capital labor impacts to net operating expenses.

Wavelo

Wavelo includes the provision of full-service platforms and professional services providing a variety of solutions that support Communication Services providers ("CSPs"), including subscription and billing management, network orchestration and provisioning, and individual developer tools. Wavelo's focus is to provide accessible telecom software to CSPs globally, minimizing network and technical barriers and improving Internet access worldwide. Wavelo's suite of flexible, cloud-based software simplifies the management of mobile and Internet network access, enabling CSPs to better utilize their existing infrastructure, focus on customer experience and scale their businesses faster. Wavelo launched as a proven asset for CSPs, with Echostar using Wavelo's Mobile Network Operating System ("MONOS") software to drive additional value within its Digital Operator Platform, and Ting integrating Wavelo's Internet Service Operating System ("ISOS") and Subscriber Management ("SM") software to enable faster subscriber growth and footprint expansion. The Wavelo segment also includes the Platypus brand and platform, our legacy billing solution for ISPs. The revenues from Wavelo's MONOS, ISOS, SM and professional services are all generated in the U.S. and our customer agreements have set contract lengths with the underlying CSP. Similarly, Wavelo's revenues from Platypus are largely generated in the U.S., with a small portion earned in Canada and other countries.

Tucows Domains

Tucows Domains includes wholesale and retail domain name registration services, as well as value added services derived through our OpenSRS, eNom, Ascio, EPAG and Hover brands. Tucows Domains revenues are earned primarily from the registration fees charged to resellers in connection with new, renewed and transferred domain name registrations. In addition, we earn revenues from the sale of retail domain name registration and email services to individuals and small businesses. Tucows Domains revenues are attributed to the country in which the contract originates, which is primarily in Canada and the U.S for OpenSRS and eNom brands whereas it is primarily in European nations for Ascio and EPAG.

Our primary distribution channel is a global network of almost 35,000 resellers that operate in over 200 countries and who typically provide their customers, the end-users of Internet-based services, with solutions for establishing and maintaining an online presence. Our primary focus is serving the needs of this network of resellers by providing the broadest portfolio of gTLD and the country code top-level domain options and related services, a white-label platform that facilitates the provisioning and management of domain names, a powerful Application Program Interface, easy-to-use interfaces, comprehensive management and reporting tools, and proactive and attentive customer service. Our services are integral to the solutions that our resellers deliver to their customers. We provide "second tier" support to our resellers by email, chat and phone in the event resellers experience issues or problems with our services. In addition, our Network Operating Center proactively monitors all services and network infrastructure to address deficiencies before customer services are impacted.

We believe that the underlying platforms for our services are among the most mature, reliable and functional reseller-oriented provisioning and management platforms in our industry, and we continue to refine, evolve and improve these services for both resellers and end-users. Our business model is characterized primarily by non-refundable, up-front payments, which lead to recurring revenue and positive operating cash flow.

Wholesale, primarily branded as OpenSRS, eNom, EPAG and Ascio, derives revenue from its domain name registration service. Together the OpenSRS, eNom, EPAG and Ascio Domain Services manage 24.6 million domain names under the Tucows, eNom, EPAG and Ascio ICANN registrar accreditations and for other registrars under their own accreditations. Domains under management have increased by less than 0.1 million, or less than 1%, since September 30, 2023.

Value-Added Services include hosted email which provides email delivery and webmail access to millions of mailboxes, Internet security services, WHOIS privacy, publishing tools and other value-added services. All of these services are made available to end-users through a network of web hosts, ISPs, and other resellers around the world. In addition, we also derive revenue by monetizing domain names which are near the end of their lifecycle through expiry auction sale.

Retail, primarily the Hover and eNom portfolio of websites, including eNom, and eNom Central, derive revenues from the sale of domain name registration and email services to individuals and small businesses. Our retail domain services also include our Personal Names Service – based on over 36,000 surname domains – which allows roughly two-thirds of Americans to purchase an email address based on their last name. The retail segment now includes the sale of the rights to its portfolio of surname domains used in connection with our RealNames email service and our Exact Hosting Service, that provides Linux hosting services for individuals and small businesses.

KEY BUSINESS METRICS AND NON-GAAP MEASURES

We regularly review a number of business metrics, including the following key metrics and non-GAAP measures, to assist us in evaluating our business, measure the performance of our business model, identify trends impacting our business, determine resource allocations, formulate financial projections and make strategic business decisions. The following tables set forth the key business metrics that we believe are the primary indicators of our performance for the periods presented:

Ting Internet

	September 30,	
	2024	2023
	(in '000's)	
Internet subscribers accounts under management	50	41
Internet owned infrastructure serviceable addresses ¹	132	114
Internet partner infrastructure serviceable addresses ¹	41	25

TucoWS Domains	For the Three Months Ended September 30,	
	2024	2023
	(in 000's)	
Total new, renewed and transferred-in domain name transactions ¹	5,278	5,391

(1) Includes all transactions processed under our accreditations for our resellers and our retail brands, as well as transactions processed on behalf of other registrars using our platform.

TucoWS Domains	For the Nine Months Ended September 30,	
	2024	2023
	(in 000's)	
Total new, renewed and transferred-in domain name transactions ¹	16,550	16,778

(1) Includes all transactions processed under our accreditations for our resellers and our retail brands, as well as transactions processed on behalf of other registrars using our platform.

TucoWS Domains	September 30,	
	2024	2023
	(in 000's)	
Registered using Registrar Accreditation belonging to the TucoWS Group	17,470	17,613
Registered using Registrar Accreditation belonging to Resellers	7,095	6,930
Total domain names under management	24,565	24,543

Adjusted EBITDA

TucoWS reports all financial information in accordance with U.S. GAAP. Along with this information, to assist financial statement users in an assessment of our historical performance, we typically disclose and discuss a non-GAAP financial measure, Adjusted EBITDA, on investor conference calls and related events that excludes certain non-cash and other charges as we believe that the non-GAAP information enhances investors' overall understanding of our financial performance. Please see discussion of Adjusted EBITDA as well as the Adjusted EBITDA reconciliation to net income in the Results of Operations section below.

OPPORTUNITIES, CHALLENGES AND RISKS

Our revenue is primarily realized in U.S. dollars and a major portion of our operating expenses are paid in Canadian dollars. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar may have a material effect on our business, financial condition and results from operations. In particular, we may be adversely affected by a significant weakening of the U.S. dollar against the Canadian dollar on a quarterly and an annual basis. Our policy with respect to foreign currency exposure is to manage our financial exposure to certain foreign exchange fluctuations with the objective of neutralizing some or all of the impact of foreign currency exchange movements by entering into foreign exchange forward contracts to mitigate the exchange risk on a portion of our Canadian dollar exposure. We may not always enter into such forward contracts and such contracts may not always be available and economical for us. Additionally, the forward rates established by the contracts may be less advantageous than the market rate upon settlement.

Ting

As an ISP, we have invested and expect to continue to invest in selective fiber to the home ("FTTH") expansion, primarily in existing footprints in the United States. The investments are a reflection of our ongoing efforts to build FTTH networks via public-private partnerships in communities we identify as having strong, unmet demand for FTTH services. Given the significant upfront build and operational investments for these FTTH deployments, there is risk that future technological and regulatory changes as well as competitive responses from incumbent local providers, may result in us not fully recovering these investments.

The communications industry continues to compete on the basis of network reach and performance, types of services and devices offered, and price.

Wavelo

Wavelo launched as a proven asset for CSPs, with Echostar using Wavelo's MONOS software to drive additional value within its Digital Operator Platform. More recently, Ting Internet has also integrated Wavelo's ISOS and SM software to enable faster subscriber growth and footprint expansion. With our external platform and professional services revenues concentrated to one customer in Echostar, we are exposed to significant risk if we are unable to maintain this customer relationship or establish new relationships for any of our Platforms in the future. Additionally, our revenues as a platform provider are directly tied to the subscriber volumes of Echostar's MVNO or Mobile Network Operator ("MNO") networks, and our profitability is contingent on the ability of Echostar to continue to add subscribers, either from organic growth or from migration off legacy systems, onto our platforms.

Tucows Domains

The increased competition in the market for Internet services in recent years, which we expect will continue to intensify in the short and long term, poses a material risk for us. As new registrars are introduced, existing competitors expand service offerings and competitors offer price discounts to gain market share, we face pricing pressure, which can adversely impact our revenues and profitability. To address these risks, we have focused on leveraging the scalability of our infrastructure and our ability to provide proactive and attentive customer service to aggressively compete to attract new customers and to maintain existing customers.

Substantially all of our Tucows Domains revenue is derived from domain name registrations and related value-added services from wholesale and retail customers using our provisioning and management platforms. The market for wholesale registrar services is both price sensitive and competitive and is evolving with the introduction of new gTLDs, particularly for large volume customers, such as large web hosting companies and owners of large portfolios of domain names. We have a relatively limited ability to increase the pricing of domain name registrations without negatively impacting our ability to maintain or grow our customer base. Growth in our Tucows Domains revenue is dependent upon our ability to continue to attract and retain customers by maintaining consistent domain name registration and value-added service renewal rates and to grow our customer relationships through refining, evolving and improving our provisioning platforms and customer service for both resellers and end-users. In addition, Tucows Domains also generate revenues through the sale of names from our portfolio of domain names and through the OpenSRS, eNom, and Ascio Domain Expiry Streams.

From time-to-time certain vendors provide us with market development funds to expand or maintain the market position for their services. Any decision by these vendors to cancel or amend these programs for any reason may result in payments in future periods not being commensurate with what we have achieved during past periods.

Other opportunities, challenges and risks

The Company is entitled to a long-term payment stream that is a function of the margin generated by the transferred subscribers over the 10-year term of the Echostar Purchase Agreement executed in Fiscal 2020. This consideration structure may not prove to be successful or profitable in the long-term to us if the existing subscriber base churns at an above average rate. Additionally, given Echostar controls the revenues and costs incurred associated with the acquired subscribers, there could arise a situation where profitability for the subscriber base is diminished either by lower price points or cost inflation. Additionally, as part of the Echostar Purchase Agreement, the Company retained a small number of customer accounts associated with one MNO agreement that was not reassigned to Echostar at time of sale. We continue to be subject to the minimum revenue commitments previously agreed to with this excluded MNO agreement. The Company is able to continue adding customers under the excluded MNO network in order to meet the commitment. However, with no direct ability to change customer pricing and limited ability to renegotiate contract costs or significant terms, the Company may be unable to meet the minimum commitments with this MNO partner and could incur significant and recurring penalties until such a time that the contract is complete. These penalties would negatively impact our operational performance and financial results if enforced by the MNO. During the three months ended September 30, 2024, the Company has accrued \$0.5 million of penalties associated with the minimum commitment shortfall; and \$0.7 million of penalties during the nine months ended September 30, 2024. The Company expects to incur penalties throughout 2024 and thereafter until the contract expires.

Critical Accounting Estimates

The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. There have been no material changes to the critical accounting estimates as previously disclosed in Part II, Item 8 of our 2023 Annual Report as of the reporting date.

Subsequent to the reporting date, the Company finalized and executed a capital efficiency plan, which, among other things, will significantly slow any new Ting Internet footprint. We believe that the capital efficiency plan will leave certain long-lived asset balances in our Ting reporting unit susceptible to future long-lived asset impairment risk, namely the assets under construction balance, which is reported under Property and equipment, net in the Company's Consolidated Balance Sheets and had a balance as of September 30, 2024 of \$80.9 million. The planned reduction in the Company's capital expansion plans could have a significant negative impact on the fair value of assets under construction and could result in impairment charges. Such a decline could be driven by, among other things: (1) changes in our expectations over the completion of work zones that were under construction as of the reporting date; (2) decreases in the reporting unit's expected use of the capital inventory on hand as of the reporting date; and (3) the reporting unit's estimates of the net realizable value of capital inventory that may be deemed available for sale.

As of December 31, 2024, we will perform an impairment assessment for our Ting reporting unit, including the assets under construction long-lived asset balance. As it is our practice, during the fourth quarter we will also complete our annual budget process during which we reassess strategic priorities and forecast future operating performance and capital spending. Based on this assessment, the carrying value of certain long-lived assets in the Ting reporting unit could exceed its fair value, resulting in the recognition of an impairment of long-lived assets in the fourth quarter of 2024 that could be material.

Inflation, rising interest rates and expected impacts

The Company continues to operate in a challenging macro environment as inflation and high interest rates continue to persist in the global economic environment. The impact of these issues on our business will vary by geographic market and operating segment. We continue to monitor economic conditions closely, as well as segment revenues, cash position, cash flow from operations, interest rates and other factors. Across our three operating segments, personnel costs continue to be impacted by sustained wage inflation incurred in the prior periods. These increases were necessary in order to remain competitive to attract and retain the best talent. The Company continues to monitor and assess wage inflation and is managing it against offsets in hiring plans and contractor mix. Outside of wage inflation, the operating segment most impacted by inflation overall is Ting, as sustained levels of inflation increase our Fiber Network build costs across both materials and contracted labor. We continue to assess ways to reduce build costs through more efficient management of our build design, build efficiency and real-time tracking of build costs to more effectively manage total cost estimates against actual spends. We are also managing our significant vendor relationships closely to mitigate supply chain disruptions and ensure optimal pricing. However, there can be no assurance as to the effectiveness of our efforts to mitigate any impact of the current and future adverse economic conditions, and other unknown developments.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2024 AS COMPARED TO THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023

NET REVENUES

Ting

Ting and its subsidiaries - Cedar, and Simply Bits includes the provision of high-speed Internet access services to select towns throughout the United States, with further expansion underway to both new and existing markets. Our primary sales channel is through the Ting website. The primary focus of this segment is to provide reliable Gigabit Fiber and Fixed Wireless Internet services to consumer and business customers. Revenues are all generated in the U.S., have no fixed contract terms and are billed on a monthly basis, with unlimited bandwidth based on a fixed price.

The Company's billing cycle for all Ting Internet customers is computed based on the customer's activation date. Since consideration is collected before the service period, revenue is initially deferred and recognized as the Company performs its obligation to provide Internet access within each reporting period. In addition, revenues associated with the sale of Internet hardware to subscribers are recognized when title and risk of loss is transferred to the subscriber and shipment has occurred. Incentive marketing credits given to customers are recorded as a reduction of revenue.

In those cases, where payment is not received at the time of sale, as is the case for service requiring installation, then revenue is not recognized until a customer's service is activated. The Company records costs that reflect expected refunds, rebates and credit card charge-backs as a reduction of revenues at the time of the sale based on historical experiences and current expectations.

Wavelo

Platform Services

Tucows' Platform Services include the following full-service platforms from Wavelo, including MONOS, ISOS, SM and our legacy Platypus ISP Billing software. Under each of these platforms there are a variety of solutions that support CSPs, including subscription and billing management, network orchestration and provisioning, and individual developer tools. Wavelo launched as a proven asset for CSPs, with EchoStar using Wavelo's MONOS software to drive additional value within its Digital Operator Platform. More recently, Ting Internet has also integrated Wavelo's ISOS and SM software to enable faster subscriber growth and footprint expansion. Wavelo's customers are billed monthly, on a postpaid basis. The monthly fees are variable, based on the volume of their subscribers utilizing the platform during a given month, to which minimums may apply. Customers may also be billed fixed platform fees and granted fixed credits as part of the consideration for long-term contracts. Consideration received is allocated to platform services and bundled professional services and recognized as each service obligation is fulfilled. Any fixed fees for Wavelo are recognized into revenue evenly over the service period, while variable usage fees are recognized each month as they are consumed. Professional services revenue is recognized as the hours of professional services granted to the customer are used or expire. When consideration for these platform services is received before the service is delivered, the revenue is initially deferred and recognized only as the Company performs its obligation to provide services. Likewise, if platform services are delivered before the Company has the unconditional right to invoice the customer, revenue is recognized as a Contract asset.

Other Professional Services

This revenue stream includes any other professional services earned in connection with the Wavelo business from the provision of standalone technology services development work. These are billed to our customers monthly at set and established rates for services provided in period. The Company recognizes revenue as the Company satisfies its obligations to provide professional services.

Tucows Domains

Wholesale - Domain Services

Domain registration contracts, which can be purchased for terms of one to ten years, provide our resellers and retail registrant customers with the exclusive right to a personalized internet address from which to build an online presence. The Company enters into domain registration contracts in connection with each new, renewed and transferred-in domain registration. At the inception of the contract, the Company charges and collects the registration fee for the entire registration period. Though fees are collected upfront, revenue from domain registrations are recognized ratably over the registration period as domain registration contracts contain a 'right to access' license of IP, which is a distinct performance obligation measured over time. The registration period begins once the Company has confirmed that the requested domain name has been appropriately recorded in the registry under contractual performance standards.

Historically, our wholesale domain service has constituted the largest portion of our business and encompasses all of our services as an accredited registrar related to the registration, renewal, transfer and management of domain names. In addition, this service fuels other revenue categories as it often is the initial service for which a reseller will engage us, enabling us to follow on with other services and allowing us to add to our portfolio by purchasing names registered through us upon their expiration. We expect Domain Services will continue to be the largest portion of our business and will continue to enable us to sell add-on services.

The Company is an ICANN accredited registrar. Thus, the Company is the primary obligor with our reseller and retail registrant customers and is responsible for the fulfillment of our registrar services to those parties. As a result, the Company reports revenue in the amount of the fees we receive directly from our reseller and retail registrant customers. Our reseller customers maintain the primary obligor relationship with their retail customers, establish pricing and retain credit risk to those customers. Accordingly, the Company does not recognize any revenue related to transactions between our reseller customers and their ultimate retail customers.

Wholesale – Value-Added Services

We derive revenue from domain related value-added services like digital certifications, WHOIS privacy and hosted email and by providing our resellers and retail registrant customers with tools and additional functionality to be used in conjunction with domain registrations. All domain related value-added services are considered distinct performance obligations which transfer the promised service to the customer over the contracted term. Fees charged to customers for domain related value-added services are collected at the inception of the contract, and revenue is recognized on a straight-line basis over the contracted term, consistent with the satisfaction of the performance obligations.

We also derive revenue from other value-added services, which primarily consists of proceeds from storefront and domain expiry streams.

Retail

We derive revenues mainly from Hover and eNom’s retail properties through the sale of retail domain name registration and email services to individuals and small businesses. The retail segment also includes the sale of the rights to its portfolio of surname domains used in connection with our RealNames email service and Linux hosting services for websites through our Exact Hosting brand.

Tucows Corporate - Mobile Services and Eliminations

Although we still provide mobile telephony services to a small subset of customers retained through the Ting Mobile brand as part of the Echostar Purchase Agreement executed in Fiscal 2020, this revenue stream no longer represents the Company’s strategic focus going forward. Instead, we have transitioned towards being a platform provider for CSPs globally via Wavelo. Retail telephony services and transition services revenues are excluded from segment EBITDA results as they are centrally managed and not monitored by or reported to our CEO by segment.

Ting Mobile wireless usage contracts grant customers access to standard talk, text and data mobile services. Ting Mobile contracts are billed based on the customer’s selected rate plan, which can either be usage based or an unlimited plan. All rate plan options are charged to customers on a postpaid, monthly basis at the end of their billing cycle. All future revenues associated with Retail Mobile Services stream will only be for this subset of customers retained by the Company, as mentioned above. Ting Mobile services are primarily contracted through the Ting website, for one month at a time and contain no commitment to renew the contract following each customer’s monthly billing cycle. The Company’s billing cycle for all Ting Mobile customers is computed based on the customer’s activation date. In order to recognize revenue as the Company satisfies its obligations, we compute the amount of revenues earned but not billed from the end of each billing cycle to the end of each reporting period. In addition, revenues associated with the sale of wireless devices and accessories are recognized when title and risk of loss is transferred to the customer and shipment has occurred. Incentive marketing credits given to customers are recorded as a reduction of revenue.

These mobile services revenue streams also include transitional services provided to Echostar. These are billed monthly at set and established rates for services provided in period and include the provision of sales, marketing, order fulfillment, and data analytics related to the legacy customer base sold to Echostar. The Company recognizes revenue as the Company satisfies its obligations to provide transitional services.

As a form of consideration for the sale of the customer relationships, the Company receives a payout on the margin associated with the legacy customer base sold to Echostar, over a period of 10 years. This has been classified as Other Income and not considered revenue in the current period.

The following table presents our net revenues, by revenue source (*Dollar amounts in thousands of U.S. dollars*):

<i>(Dollar amounts in thousands of U.S. dollars)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Ting:				
Fiber Internet Services	\$ 15,310	\$ 12,855	\$ 43,983	\$ 37,116
Wavelo:				
Platform Services	10,075	10,697	29,935	27,537
Other Professional Services	7	377	38	1,588
Total Wavelo	10,082	11,074	29,973	29,125
Tucows Domains:				
Wholesale				
Domain Services	49,871	47,657	146,527	140,734
Value Added Services	5,175	4,252	14,402	13,441
Total Wholesale	55,046	51,909	160,929	154,175
Retail	9,669	9,179	28,036	26,111
Total Tucows Domains	64,715	61,088	188,965	180,286
Tucows Corporate:				
Mobile services and eliminations	2,190	1,954	6,256	5,852
	\$ 92,297	\$ 86,971	\$ 269,177	\$ 252,379
Increase over prior period	\$ 5,326		\$ 16,798	
Increase - percentage	6%		7%	

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The following table presents our net revenues, by revenue source, as a percentage of total net revenues (*Dollar amounts in thousands of U.S. dollars*):

<i>(Dollar amounts in thousands of U.S. dollars)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Ting:				
Fiber Internet Services	17%	15%	16%	15%
Wavelo:				
Platform Services	11%	12%	11%	11%
Other Professional Services	0%	0%	0%	1%
Total Wavelo	11%	12%	11%	12%
Tucows Domains:				
Wholesale				
Domain Services	54%	55%	54%	56%
Value Added Services	6%	5%	5%	5%
Total Wholesale	60%	60%	60%	61%
Retail				
Total Tucows Domains	70%	71%	70%	71%
Tucows Corporate:				
Mobile services and eliminations	2%	2%	2%	2%
	100%	100%	100%	100%

Total net revenues for the three months ended September 30, 2024, increased by \$5.3 million or 6%, to \$92.3 million when compared to the three months ended September 30, 2023. The three-month increase in net revenue was driven by Tucows Domains, Ting, and Mobile Services and eliminations; partially offset by a decline in revenues from Wavelo. The Tucows Domains segment increased \$3.6 million primarily driven by increased domains under management, pricing increases, and strong expiry auction revenue performance. The Ting segment increased \$2.5 million in the current period as a result of subscriber growth from the continued buildout of our Fiber network across the United States. Mobile Services and eliminations increased by \$0.2 million attributable to decreased intercompany revenues partially offset by decreased telephony services and decreased transitional services revenues. The Wavelo segment decreased \$1.0 million in the current period primarily from the reduction of both platform and other professional services revenues with customers in the current period.

Total net revenues for the nine months ended September 30, 2024, increased by \$16.8 million or 7%, to \$269.2 million when compared to the nine months ended September 30, 2023. The nine-month increase in net revenue was driven by higher revenue across all operations. Consistent with the above discussion, the Tucows Domains segment increased \$8.7 million primarily driven by increased domains under management and pricing increases through the current period. The Ting segment increased by \$6.9 million in the current period as a result of subscriber growth from the continued buildout of our Fiber network across the United States. The Wavelo segment increased \$0.8 million in the current period as a result of the complete Boost Mobile subscriber base migration onto our platform, compared to the prior period where subscriber migrations were only complete at the end of June 30, 2023; offset by a decrease in other professional services revenues. Mobile Services and eliminations increased by \$0.4 million attributable to decreased intercompany revenues partially offset by decreased telephony services, and decreased transitional services revenues.

Deferred revenue at September 30, 2024, increased by \$7.9 million to \$156.0 million from \$148.1 million at December 31, 2023. This was driven by Tucows Domains as a result of the increase in current period billings for domain name registrations and service renewals, characteristic of the seasonal renewal pattern we see during the beginning of a Fiscal Year as well as the increase in pricing and domain names under management through the current period. This was furthered by a smaller increase from Wavelo as a result of the contract liability associated with select customer contracts.

During both the three and nine months ended September 30, 2024, a customer, Echostar, within our Wavelo segment accounted for 11% and 11% of total net revenues, respectively. Echostar also accounted for 14% and 11% of total net revenue during the three and nine months ended September 30, 2023, respectively. As of September 30, 2024, Echostar also represented for 47% of total accounts receivable. At December 31, 2023 Echostar represented 39% of accounts receivable. Though a significant portion of the Company's domain services revenues are prepaid by our customers, where the Company does collect receivables, management judgment is required at the time revenue is recorded to assess whether the collection of the resulting receivables is reasonably assured. On an ongoing basis, we assess the ability of our customers to make required payments. Our allowance for doubtful accounts was \$0.5 million as of September 30, 2024 and \$0.5 million as of December 31, 2023, respectively. Based on this assessment, we expect the carrying amount of our outstanding receivables, net of allowance for doubtful accounts, to be fully collected.

Ting

Ting generated \$15.3 million in net revenue during the three months ended September 30, 2024, up \$2.5 million or 19% compared to the three months ended September 30, 2023. This growth is driven by subscriber growth across our Fiber network relative to the three months ended September 30, 2023, as well as the continued expansion of our Ting Internet footprint to new Ting towns throughout the United States.

Ting generated \$44.0 million in net revenue during the nine months ended September 30, 2024, up \$6.9 million or 19% compared to the nine months ended September 30, 2023. This growth is driven by subscriber growth across our Fiber network relative to the nine months ended September 30, 2023, as well as the continued expansion of our Ting Internet footprint to new Ting towns throughout the United States.

As of September 30, 2024, Ting Internet had access to 132,000 owned infrastructure serviceable addresses, 41,000 partner infrastructure serviceable addresses and 50,000 active subscribers under its management; compared to having access to 114,000 owned infrastructure serviceable addresses, 25,000 partner infrastructure serviceable addresses and 41,000 active subscribers under its management as of September 30, 2023. These figures exclude any changes in serviceable addresses and subscribers attributable to Simply Bits.

Wavelo

Platform Services

Net revenues from Wavelo Platform Services for the three months ended September 30, 2024, decreased by \$0.6 million or 6%, to \$10.1 million as compared to the three months ended September 30, 2023. This is driven by lower platform revenues from our CSP customers in the current period. Ting saw a reduction in flat fee platform fees, while EchoStar experienced some churn to subscribers under management since the three months ended September 30, 2023 which negatively impacted Wavelo's current period revenues. Intercompany revenues earned for provision of services on the ISOS and SM platforms between Wavelo and Ting are included in Wavelo's segment revenues for purposes of segment analysis, but are ultimately eliminated upon consolidation. The elimination impact is presented below in Tucows Corporate - Mobile Services and Eliminations.

Net revenues from Wavelo Platform Services for the nine months ended September 30, 2024, increased by \$2.4 million or 9%, to \$29.9 million as compared to the nine months ended September 30, 2023. This is driven from increased MONOS platform revenues earned from a full nine months of fully loaded revenues from the completed migration of EchoStar's Boost Mobile subscribers at the end of June 30, 2023. The increased platform fees from EchoStar in the current period are partially offset by a reduction of revenues from Ting, as discussed above. Intercompany revenues earned for provision of services on the ISOS and SM platforms between Wavelo and Ting are included in Wavelo's segment revenues for purposes of segment analysis, but are ultimately eliminated upon consolidation. The elimination impact is presented below in Tucows Corporate - Mobile Services and Eliminations.

Other Professional Services

Net revenues from Other Professional Services for the three months ended September 30, 2024, decreased by \$0.4 million or 98% as compared to the three months ended September 30, 2023. These revenues related to the provision of standalone technology services development work for our CSP customers and are non-recurring and often one-time in nature, and expectantly can fluctuate period over period. These revenues depend on the volume (if any) and scope of standalone technology services development work our customers engage us to perform. In the current period, we performed less standalone professional services for our customers.

Net revenues from Other Professional Services for the nine months ended September 30, 2024, decreased by \$1.6 million or 98% as compared to the nine months ended September 30, 2023. These revenues related to the provision of standalone technology services development work for our CSP customers and are non-recurring and often one-time in nature, and expectantly can fluctuate period over period. These revenues depend on the volume (if any) and scope of standalone technology services development work our customers engage us to perform. In the current period, we performed less standalone professional services for our customers.

Tucows Domains

Wholesale - Domain Services

During the three months ended September 30, 2024, Wholesale domain services net revenue increased by \$2.2 million or 5%, to \$50 million as compared to the three months ended September 30, 2023. Increases from Wholesale domain registrations were driven from slight increase in domains under management through the current period and various price increases since September 30, 2023.

During the nine months ended September 30, 2024, Wholesale domain services net revenue increased by \$5.8 million or 4%, to \$146.5 million as compared to the nine months ended September 30, 2023. Increases from Wholesale domain registrations were driven from slight increase in domains under management through the current period and various price increases since September 30, 2023.

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As of September 30, 2024 together, the OpenSRS, eNom, EPAG, and Ascio Domain Services manage 24.6 million domain names under the Tucows, eNom, EPAG and Ascio ICANN registrar accreditations and for other registrars under their own accreditations. Domains under management has increased by less than 0.1 million, or less than 1%, since September 30, 2023.

Wholesale - Value Added Services

During the three months ended September 30, 2024, value-added services net revenue decreased by \$0.9 million or 21%, to \$5.2 million as compared to the three months ended September 30, 2023. The decrease in value-added service revenue was driven by lower digital certifications and email revenues, partially offset by strong expiry sales and the inclusion of our storefront operations through the current period.

During the nine months ended September 30, 2024, value-added services net revenue decreased by \$1.0 million or 7%, to \$14.4 million as compared to the nine months ended September 30, 2023. The decrease in value-added service revenue was driven by lower digital certifications and email revenues, partially offset by strong expiry sales and the inclusion of our storefront operations through the current period.

Retail

During the three months ended September 30, 2024, retail domain services net revenue increased by \$0.5 million or 5%, to \$9.7 million as compared to the three months ended September 30, 2023. This was driven by price increases across domain name registrations, and strong Exact Hosting revenues in the current period.

During the nine months ended September 30, 2024, retail domain services net revenue increased by \$1.9 million or 7%, to \$28.0 million as compared to the nine months ended September 30, 2023. This was driven by a large transition of domain names from wholesale to retail, price increases across domain name registrations, strong domain name portfolio sales, and strong Exact Hosting revenues in the current period.

Tucows Corporate - Mobile Services and Eliminations

Net revenues from Mobile Services and eliminations for the three months ended September 30, 2024 increased by \$0.2 million or 10%, to \$2.2 million as compared to the three months ended September 30, 2023. This was driven by lower intercompany corporate eliminations of \$0.4 million, primarily a result of decreased revenues associated with ISOS and SM platforms billing between Wavelo and Ting. This was partially offset by decreased revenues of \$0.2 million associated with the mobile telephony services and device revenues from the small group of customers retained by the Company as part of the Echostar Purchase Agreement primarily a result of organic subscriber churn and plan mix shifting towards lower price point rate plans compared to the three months ended September 30, 2023. This was also furthered by decreased transitional services of \$0.1 million, from a decreased level of dedicated support services provided to Echostar in connection with the legacy Ting Mobile customer base.

Net revenues from Mobile Services and eliminations for the nine months ended September 30, 2024 increased by \$0.4 million or 7%, to \$6.3 million as compared to the nine months ended September 30, 2023. This was driven by lower intercompany corporate eliminations of \$1.3 million, primarily a result of decreased revenues associated with ISOS and SM platforms billing between Wavelo and Ting. This was partially offset by decreased revenues of \$0.9 million associated with the mobile telephony services and device revenues from the small group of customers retained by the Company as part of the Echostar Purchase Agreement primarily a result of organic subscriber churn and plan mix shifting towards lower price point rate plans compared to the nine months ended September 30, 2023. This was also furthered by decreased transitional services of \$0.3 million, from a decreased level of dedicated support services provided to Echostar in connection with the legacy Ting Mobile customer base.

COST OF REVENUES

Ting

Cost of revenues primarily includes the costs for provisioning high speed Internet access for Ting and its subsidiaries - Cedar, and Simply Bits, which is comprised of network access fees paid to third-parties to use their network, leased circuit costs to directly support enterprise customers, the personnel and related expenses (net of capitalization) for the physical planning, design, construction and build out of the physical Fiber network, and as well as personnel and related expenses (net of capitalization) for the installation, activation, repair, maintenance and overall field service delivery of the Ting business. Hardware costs include the cost of equipment sold to end customers, including routers, ONTs, and IPTV products, and any adjustments on this inventory. Other costs include field vehicle expenses, and small sundry equipment and supplies consumed in building the Fiber network.

Wavelo

Platform Services

Cost of revenues to provide the MONOS, ISOS and SM platforms, as well as our legacy Platypus ISP Billing software services including network access, provisioning and billing services for CSPs. This includes the amortization of any capitalized contract fulfillment costs over the period consistent with the pattern of transferring network access, provisioning and billing services to which the cost relates. Additionally, this includes any fees paid to third-party service providers primarily for printing services in connection with the Platypus ISP Billing software.

Other Professional Services

Cost of revenues to provide standalone technology services development work to our CSP customers to help support their businesses. This includes any personnel and contractor fees for any client service resources retained by the Company. Only a subset of the Company's employee base provides professional services to our customers. This cost reflects that group of resources.

Tucows Domains

Wholesale - Domain Services

Cost of revenues for domain registrations represents the amortization of registry and accreditation fees on a basis consistent with the recognition of revenues from our customers, namely ratably over the term of provision of the service. Registry fees, the primary component of cost of revenues, are paid in full when the domain is registered, and are initially recorded as prepaid domain registry fees. This accounting treatment reasonably approximates a recognition pattern that corresponds with the provision of the services during the period. Market development funds that do not represent a payment for distinct goods or services provided by the Company, and thus do not meet the criteria for revenue recognition under ASU 2014-09, are reflected as cost of goods sold and are recognized as earned.

Wholesale - Value-Added Services

Costs of revenues for value-added services include licensing and royalty costs related to the provisioning of certain components for hosted email and fees paid to third-party hosting services. Fees payable for trust certificates and storefront customer domains are amortized on a basis consistent with the provision of service, generally one year, while email hosting fees and monthly printing fees are included in cost of revenues in the month they are incurred.

Retail

Costs of revenues for our provision and management of Internet services through our retail sites, Hover.com and the eNom branded sites, include the amortization of registry fees on a basis consistent with the recognition of revenues from our customers, namely ratably over the term of provision of the service. Registry fees, the primary component of cost of revenues, are paid in full when the domain is registered, and are recorded as prepaid domain registry fees and are expensed ratably over the renewal term. Costs of revenues for our surname portfolio represent the amortization of registry fees for domains added to our portfolio over the renewal period, which is generally one year, the value attributed under intangible assets to any domain name sold and any impairment charges that may arise from our assessment of our domain name intangible assets.

Tucows Corporate - Mobile Services and Eliminations

Cost of revenues for retail mobile services includes the costs of provisioning mobile services, which is primarily our customers' voice, messaging, data usage provided by our MNO partner, and the costs of providing mobile phone hardware, which is the cost of mobile phone devices and SIM cards sold to our customers, order fulfillment related expenses, and inventory write-downs. Included in the costs of provisioning mobile services are any penalties associated with the minimum commitments with our MNO partner.

These mobile services costs also include the personnel and related costs of transitional services provided to Echostar. These are billed monthly at set and established rates for services provided in period and include the provision of sales, marketing, order fulfillment, and data analytics related to the legacy customer base sold to Echostar. The Company recognizes costs as the Company satisfies its obligations to provide professional services.

Network Expenses

Network expenses include personnel and related expenses related to platform and network site reliability engineering, network operations centers, IT infrastructure and supply chain teams that support our various business segments. It also includes the depreciation and any impairment charges of property and equipment related to our networks and platforms, amortization of any intangible assets related to our networks and platforms, communication and productivity tool costs, and equipment maintenance costs. Communication and productivity tool costs include collaboration, customer support, bandwidth, co-location and provisioning costs we incur to support the supply of all our services across our segments.

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The following table presents our cost of revenues, by revenue source:

(Dollar amounts in thousands of U.S. dollars)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Ting:				
Fiber Internet Services	\$ 4,321	\$ 4,869	\$ 14,434	\$ 14,211
Wavelo:				
Platform Services	63	342	727	1,006
Other Professional Services	-	228	26	1,289
Total Wavelo	63	570	753	2,295
Tucows Domains:				
Wholesale				
Domain Services	40,180	38,060	117,764	112,352
Value Added Services	509	537	1,576	1,726
Total Wholesale	40,689	38,597	119,340	114,078
Retail	4,216	4,116	12,410	12,383
Total Tucows Domains	44,905	42,713	131,750	126,461
Tucows Corporate:				
Mobile services and eliminations	3,324	2,565	8,798	7,783
Network Expenses:				
Network, other costs	6,864	7,322	20,790	20,638
Network, depreciation of property and equipment	9,414	9,138	29,336	26,331
Network, amortization of intangible assets	366	378	1,097	1,135
Network, impairment of property and equipment	852	2,663	905	4,679
	17,496	19,501	52,128	52,783
	\$ 70,109	\$ 70,218	\$ 207,863	\$ 203,533
(Decrease) increase over prior period	\$ (109)		\$ 4,330	
(Decrease) increase - percentage	0%		2%	

The following table presents our cost of revenues, as a percentage of total cost of revenues for the periods presented:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Ting:				
Fiber Internet Services	6%	7%	7%	7%
Wavelo:				
Platform Services	0%	0%	0%	0%
Other Professional Services	0%	0%	0%	1%
Total Wavelo	0%	0%	0%	1%
Tucows Domains:				
Wholesale				
Domain Services	57%	54%	57%	55%
Value Added Services	1%	1%	1%	1%
Total Wholesale	58%	55%	58%	56%
Retail	6%	6%	6%	6%
Total Tucows Domains	64%	61%	64%	62%
Tucows Corporate:				
Mobile services and eliminations	5%	4%	4%	4%
Network Expenses:				
Network, other costs	10%	10%	10%	10%
Network, depreciation of property and equipment	13%	13%	14%	13%
Network, amortization of intangible assets	1%	1%	1%	1%
Network, impairment of property and equipment	1%	4%	0%	2%
	25%	28%	25%	26%
	100%	100%	100%	100%

Total cost of revenues for the three months ended September 30, 2024, decreased by \$0.1 million or 0%, to \$70.1 million from \$70.2 million in the three months ended September 30, 2023. The three-month decrease in cost of revenues was driven by decreases across Network Expenses, Ting, and Wavelo of \$2.0 million, \$0.5 million, and \$0.5 million, respectively. The decrease in Network Expenses of \$2.0 million was primarily due to a decrease in impairment charges within the Ting segment compared to the three months ended September 30, 2023. The decrease in Ting of \$0.5 million was primarily a result of savings from Ting's workforce reduction. The decrease in Wavelo of \$0.5 million was driven by the absence of deferred contract amortization which was completed in July 2024. These decreases were offset by increases across Tucows Domains and Mobile Service and eliminations of \$2.2 million and \$0.8 million, respectively. The increase in Tucows Domains of \$2.2 million was primarily a result of an increase in domains under management and cost increases through the current period. The increase in Mobile Services and eliminations of \$0.8 million was primarily a result of higher mobile telephony services costs due to plan mix changes in the current period and MNO penalties.

Total cost of revenues for the nine months ended September 30, 2024, increased by \$4.4 million or 2%, to \$207.9 million from \$203.5 million in the nine months ended September 30, 2023. The nine-month increase in cost of revenues was driven by increases across Tucows Domains, Mobile Service and eliminations, and Ting of \$5.3 million, \$1.0 million, and \$0.2 million, respectively. The increase in Tucows Domains of \$5.3 million was primarily a result of an increase in registry costs and domains under management through the current period. The increase in Mobile Services and eliminations of \$1.0 million was primarily a result of higher mobile telephony services costs due to plan mix changes and MNO penalties in the current period. The increase in Ting of \$0.2 million was primarily driven by the costs of revenues associated with growth in active subscribers. These increases were partially offset by decreases in Wavelo and Network Expenses of \$1.5 million and \$0.7 million, respectively. The decrease in Wavelo of \$1.5 million was primarily driven by Other Professional Services, consistent with less standalone technology development work and revenues in the current period. The decrease in Network Expenses of \$0.7 million is primarily due to the absence of impairment charges within the Ting segment, offset by incremental depreciation associated with the continuing expansion of the Ting Internet network and development of Wavelo's platform assets.

Deferred costs of fulfillment as of September 30, 2024, increased by \$5.1 million, or 5%, to \$116 million from \$111.1 million at December 31, 2023. This was primarily driven by Tucows Domains with an increase of \$5.8 million, from the increase in current period billings for domain name registrations and service renewals, characteristic of the seasonal renewal pattern we see during the beginning of a Fiscal Year as well as the increase in domain names under management and registry cost increases through the current period, consistent with the increase in deferred revenues discussed above. This increase was partially offset by Wavelo, with a decrease of \$0.7 million, primarily related to the completion of Other Professional Services where the deferred costs to fulfill those services were amortized into costs of revenues in the prior period.

Ting

During the three months ended September 30, 2024, costs related to provisioning high speed Internet access for Ting and its subsidiaries - Cedar and Simply Bits, decreased by \$0.6 million or 12%, to \$4.3 million as compared to three months ended September 30, 2023. This was driven by a reduction in headcount following the February 2024 Ting workforce reduction. This was partially offset by the subscriber growth across our Fiber network driving an increase in costs of revenues.

During the nine months ended September 30, 2024, costs related to provisioning high speed Internet access for Ting and its subsidiaries - Cedar, and Simply Bits increased by \$0.2 million or 1%, to \$14.4 million as compared to nine months ended September 30, 2023. Consistent with the discussion above in the Net Revenue section, the subscriber growth across our Fiber network drove an increase in costs of revenues which included dark fiber, bandwidth and colocation costs. The 2024 February workforce reduction discussed above also drove an increase in one-time termination benefits, continuation benefits, and outplacement costs in Ting's cost of revenues in the current period.

Wavelo

Platform Services

Cost of revenues from Wavelo Platform Services for the three months ended September 30, 2024 decreased by \$0.3 million or 82% to \$0.1 million as compared to the three months ended September 30, 2023. This was driven by the absence of the amortization of previously capitalized costs incurred to fulfill the Echostar Master Services Agreement ("MSA") over the term of the agreement, as the agreement ended in July 2024.

Cost of revenues from Wavelo Platform Services for the nine months ended September 30, 2024, decreased by \$0.3 million or 28% to \$0.7 million as compared to the nine months ended September 30, 2023. This was driven by the absence of the amortization of previously capitalized costs incurred to fulfill the Echostar Master Services Agreement ("MSA") over the term of the agreement, as the agreement ended in July 2024.

Other Professional Services

Cost of revenues from Other Professional Services for the three months ended September 30, 2024, decreased by \$0.2 million or 100%, to nil as compared to \$0.2 million for the three months ended September 30, 2023. Costs of revenues to provide other professional services change depending on the nature and scope of work we are engaged to perform for our customers for select statements of work. These cost of revenues depend on the volume (if any) and scope of standalone technology services development work our customers engage us to perform. In the current period, we performed less standalone professional services for our customers. The decrease is aligned to the decrease in Net Revenues discussed above.

Cost of revenues from Other Professional Services for the nine months ended September 30, 2024, decreased by \$1.3 million or 97%, to less than \$0.1 million as compared to \$1.3 million for the nine months ended September 30, 2023. Costs of revenues to provide other professional services change depending on the nature and scope of work we are engaged to perform for our customers for select statements of work. These cost of revenues depend on the volume (if any) and scope of standalone technology services development work our customers engage us to perform. In the current period, we performed less standalone professional services for our customers. The decrease is aligned to the decrease in Net Revenues discussed above.

Tucows Domains

Wholesale - Domain Services

Costs for Wholesale domain services for the three months ended September 30, 2024, increased by \$2.1 million or 6%, to \$40.2 million, as compared to \$38.1 million to the three months ended September 30, 2023. Increases from Wholesale domain registrations were primarily driven from a slight increase in domains under management through the current period and various registry gTLD cost increases since September 30, 2023. The increase is aligned to the increase in Net Revenues discussed above.

Costs for Wholesale domain services for the nine months ended September 30, 2024, increased by \$5.4 million or 5%, to \$117.8 million, as compared to \$112.4 million to the nine months ended September 30, 2023. Increases from Wholesale domain registrations were primarily driven from a slight increase in domains under management through the current period and various registry gTLD cost increases since September 30, 2023. The increase is aligned to the increase in Net Revenues discussed above.

Wholesale - Value-Added Services

Costs for wholesale value-added services for the three months ended September 30, 2024, decreased by less than \$0.1 million or 0%, to \$0.5 million, as compared to \$0.5 million for the three months ended September 30, 2023. This decrease was driven by decreased costs related to the Digital Certificate stream of revenue, and was partially offset by the inclusion of our storefront operations consistent with the Net Revenue discussion above.

Costs for wholesale value-added services for the nine months ended September 30, 2024, decreased by \$0.1 million or 6%, to \$1.6 million, as compared to \$1.7 million for the nine months ended September 30, 2023. This decrease was driven by decreased costs related to the Digital Certificate stream of revenue, and was partially offset by the inclusion of our storefront operations consistent with the Net Revenue discussion above.

Retail

Costs for retail domain services for the three months ended September 30, 2024, increased by \$0.1 million or 2%, to \$4.2 million, as compared to \$4.1 million for the three months ended September 30, 2023.

Costs for retail domain services for the nine months ended September 30, 2024, increased by less than \$0.1 million or 0%, to \$12.4 million, as compared to \$12.4 million for the nine months ended September 30, 2023.

Tucows Corporate - Mobile Services and Eliminations

Cost of revenues from Mobile Services and Eliminations for the three months ended September 30, 2024, increased by \$0.8 million or 29%, to \$3.3 million as compared to the three months ended September 30, 2023. The increase is driven by increased costs associated with mobile telephony services from the small group of customers retained by the Company as part of the Echostar Purchase Agreement due to plan mix changes towards unlimited plans. The Company accrued \$0.5 million in penalties associated with the MNO minimum commitment shortfall in the three months ended September 30, 2024, as compared to \$0.1 million in the three months ended September 30, 2023. The company expects to continue to incur penalties through the end of Fiscal 2024 and thereafter should limited subscriber growth persist. This was partially offset by a decrease in transitional services costs provided to Echostar in connection with the legacy Ting Mobile customer base, consistent with the above discussion around net revenues.

Cost of revenues from Mobile Services and Eliminations for the nine months ended September 30, 2024, increased by \$1.0 million or 13%, to \$8.8 million as compared to the nine months ended September 30, 2023. The increase is driven by increased costs associated with mobile telephony services from the small group of customers retained by the Company as part of the Echostar Purchase Agreement due to plan mix changes towards unlimited plans. The Company accrued \$0.7 million in penalties associated with the MNO minimum commitment shortfall in the nine months ended September 30, 2024, as compared to \$0.5 million in the nine months ended September 30, 2023. The company expects to continue to incur penalties through the end of Fiscal 2024 and thereafter should limited subscriber growth persist. This was partially offset by a decrease in transitional services costs provided to Echostar in connection with the legacy Ting Mobile customer base, consistent with the above discussion around net revenues.

Network Expenses

Network expenses for the three months ended September 30, 2024, decreased by \$2.0 million or 10%, to \$17.5 million, as compared to \$19.5 million for the three months ended September 30, 2023. The current period decrease was driven by the absence of \$2.5 million of impairment charges within the Ting segment that occurred in the three months ended September 30, 2023. This was slightly offset by an increase in provisions for impairment.

Network expenses for the nine months ended September 30, 2024, decreased by \$0.7 million or 1%, to \$52.1 million, as compared to \$52.8 million for the nine months ended September 30, 2023. The current period decrease was primarily driven by a decrease in impairment charges of \$3.8 million related to Ting capital inventory and assets under construction compared to the nine months ended September 30, 2023. This was offset by increased network depreciation of \$3.0 million. The current period increase in network depreciation relates to \$2.3 million in incremental depreciation from Ting's expansion of our Ting Internet footprint to new Ting towns throughout the United States, \$0.6 million in incremental depreciation of Wavelo's platform assets, and increased depreciation of \$0.1 million related to Tucows Domains and Corporate.

SALES AND MARKETING

Sales and marketing expenses consist primarily of personnel costs. These costs include commissions and related expenses of our sales, product management, public relations, call center, support and marketing personnel. Other sales and marketing expenses include customer acquisition costs, advertising and other promotional costs.

(Dollar amounts in thousands of U.S. dollars)

	<u>For the Three Months Ended September 30,</u>		<u>For the Nine Months Ended September 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Sales and marketing	\$ 15,180	\$ 17,295	\$ 48,491	\$ 49,052
Decrease over prior period	\$ (2,115)		\$ (561)	
Decrease - percentage	(12)%		(1)%	
Percentage of net revenues	16%	20%	18%	19%

Sales and marketing expenses for the three months ended September 30, 2024, decreased by \$2.1 million or 12%, to \$15.2 million as compared to the three months ended September 30, 2023. The decrease was primarily driven by Ting's reduced marketing spend resulting in lower media placements and other customer acquisition related costs through the current period.

Sales and marketing expenses for the nine months ended September 30, 2024, decreased by \$0.6 million or 1%, to \$48.5 million as compared to the nine months ended September 30, 2023. The decrease was primarily driven by Ting's reduced marketing spend resulting in lower media placements and other customer acquisition related costs through the current period. This was partially offset by increases from the one-time termination benefits, continuation benefits, and outplacement costs associated with the February 2024 workforce reduction discussed above.

TECHNICAL OPERATIONS AND DEVELOPMENT

Technical operations and development expenses consist primarily of personnel costs and related expenses required to support the development of new or enhanced service offerings and the maintenance and upgrading of existing infrastructure. This includes expenses incurred in the research, design and development of technology that we use to register domain names, provide Wavelo's platform services, provide Ting's Internet Services, email, retail, domain portfolio and other Internet services. All technical operations and development costs are expensed as incurred.

(Dollar amounts in thousands of U.S. dollars)

	<u>For the Three Months Ended September 30,</u>		<u>For the Nine Months Ended September 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Technical operations and development	\$ 4,615	\$ 4,818	\$ 14,153	\$ 14,214
Increase (decrease) over prior period	\$ (203)		\$ (61)	
Increase (decrease) - percentage	(4)%		(0)%	
Percentage of net revenues	5%	6%	5%	6%

Technical operations and development expenses for the three months ended September 30, 2024, decreased by less than \$0.2 million or 4%, to \$4.6 million when compared to the three months ended September 30, 2023. The current period decrease was primarily related to lower contracted services for tools, systems and labor to support the technical operations and development of our systems and platforms. These decreases were partially offset by the net investment in hiring and retaining personnel across our segments. This investment increased personnel costs but was partially offset by increased capitalized labor.

Technical operations and development expenses for the nine months ended September 30, 2024, decreased by \$0.1 million or 0%, to \$14.2 million when compared to the nine months ended September 30, 2023. The current period decrease was primarily related to lower contracted services for tools, systems and labor to support the technical operations and development of our systems and platforms; as well as lower network connectivity and co-location costs. These decreases were partially offset by the net investment in hiring and retaining personnel across our segments. This investment increased personnel costs but was partially offset by increased capitalized labor for Wavelo.

GENERAL AND ADMINISTRATIVE

General and administrative expenses consist primarily of compensation and related costs for managerial and administrative personnel, fees for professional services, public listing expenses, rent, foreign exchange and other general corporate expenses.

(Dollar amounts in thousands of U.S. dollars)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
General and administrative	\$ 11,485	\$ 9,399	\$ 30,491	\$ 25,674
Increase over prior period	\$ 2,086		\$ 4,817	
Increase - percentage	22%		19%	
Percentage of net revenues	12%	11%	11%	10%

General and administrative expenses for the three months ended September 30, 2024, increased by \$2.1 million or 22%, to \$11.5 million as compared to the three months ended September 30, 2023. The increase is driven by additional professional services fees incurred in the current period as well as increased personnel costs from hiring additional personnel and salary increases for existing leadership and administrative teams. These increases were furthered by increased spending on tooling and software to support general and administrative functions, and partially offset by a favorable foreign exchange impact in the current period.

General and administrative expenses for the nine months ended September 30, 2024, increased by \$4.8 million or 19%, to \$30.5 million as compared to the nine months ended September 30, 2023. Consistent with the above discussion, the six months increase in general and administrative expenses was furthered by increased professional services fees, personnel costs from hiring additional personnel, salary increases for existing leadership and administrative teams, as well as increased spending on tooling and software to support general and administrative functions.

DEPRECIATION OF PROPERTY AND EQUIPMENT

(Dollar amounts in thousands of U.S. dollars)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Depreciation of property and equipment	\$ 112	\$ 137	\$ 350	\$ 439
Decrease over prior period	\$ (25)		\$ (89)	
Decrease - percentage	(18)%		(20)%	
Percentage of net revenues	0%	0%	0%	0%

Depreciation costs for the three months ended September 30, 2024, decreased by less than \$0.1 million, to \$0.1 million as compared to the three months ended September 30, 2023.

Depreciation costs for the nine months ended September 30, 2024, decreased by less than \$0.1 million, to \$0.4 million as compared to the nine months ended September 30, 2023.

AMORTIZATION OF INTANGIBLE ASSETS

(Dollar amounts in thousands of U.S. dollars)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Amortization of intangible assets	\$ 843	\$ 2,242	\$ 2,992	\$ 6,966
Decrease over prior period	\$ (1,399)		\$ (3,974)	
Decrease - percentage	(62)%		(57)%	
Percentage of net revenues	1%	3%	1%	3%

Amortization of intangible assets for the three months ended September 30, 2024, decreased by \$1.4 million or 62% to \$0.8 million as compared to the three months ended September 30, 2023. The decrease was driven in part by the completed amortization of brand and customer relationships associated with the Company's Fiscal 2017 acquisition of eNom in the current year.

Amortization of intangible assets for the nine months ended September 30, 2024, decreased by \$4.0 million or 57% to \$3.0 million as compared to the nine months ended September 30, 2023. The decrease was driven in part by the completed amortization of customer relationships associated with the Company's Fiscal 2016 acquisition of Melbourne IT assets in the prior year, as well as the completed amortization of brand and customer relationships associated with the Company's Fiscal 2017 acquisition of eNom in the current year.

OTHER INCOME (EXPENSES)

	For the Three Months Ended September			
	30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Other income (expense), net	\$ (9,176)	\$ (6,427)	\$ (26,154)	\$ (30,829)
Increase (decrease) over prior period	\$ (2,749)		\$ 4,675	
Increase (decrease) - percentage	43%		(15)%	
Percentage of net revenues	10%	(7)%	(10)%	(12)%

Other Income (Expenses) during the three months ended September 30, 2024, decreased by \$2.7 million when compared to the three months ended September 30, 2023. The decrease was primarily driven by higher net interest expense and lower income earned on sale of Transferred Assets to EchoStar; partially offset by other income. Net interest expense increased as a result of the inclusion of interest associated with the 2023 and 2024 Term Notes, an increase due to the absence of interest rate swap contracts in the current period, and lower interest expense capitalization associated with Fiber network assets under construction, partially offset by reduction in interest related to the Credit Facility for the Tucows businesses excluding Ting. Income earned on sale of Transferred Assets to EchoStar decreased as a result of legacy customers naturally churning, as expected. Other income further increased as a result of the inclusion of sublease rental income received in the current period and the Orange Domains joint venture.

Other Income (Expenses) during the nine months ended September 30, 2024, increased by \$4.7 million when compared to the nine months ended September 30, 2023. The increase was primarily driven by the absence of loss on debt extinguishment, partially offset by higher net interest expense and lower income earned on sale of Transferred Assets to EchoStar; partially offset by other income. The absence of the loss on debt extinguishment related to the make-whole premium paid to Generate following the redemption of Series A Preferred Units in the three months ended September 30, 2023. Net interest expense increases as a result of the inclusion of interest associated with the 2023 and 2024 Term Notes, an increase due to the absence of interest rate swap contracts in the current period, and lower interest expense capitalization associated with Fiber network assets under construction, partially offset by reduction in interest related to the Credit Facility for the Tucows businesses excluding Ting, and the inclusion of interest income following the execution of Ting's 2023 and 2024 Term Notes. Income earned on sale of Transferred Assets to EchoStar decreased as a result of legacy customers naturally churning, as expected. Other income further increased as a result of the inclusion of Orange Domains joint venture and sublease rental income received in the current period.

INCOME TAXES

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
	Provision for income taxes	\$ 3,074	\$ (822)	\$ 6,068
Increase in provision over prior period	\$ 3,896		\$ 11,625	
Increase - percentage	*		*	
Effective tax rate	(16)%	3%	(10)%	7%

* not meaningful

Income tax expense for the three and nine months ended September 30, 2024, increased by \$3.9 million and \$11.6 million respectively when compared to the three and nine months ended September 30, 2023. The change in effective tax rate is primarily due an increase in valuation allowance on net operating losses, which exceeded the impact of existing reversible temporary differences when compared to the same period in the prior year.

We regularly evaluate our deferred tax assets, including net operating losses, to determine whether a valuation allowance is necessary based on our expectations of future taxable income. The increase in our valuation allowance on net operating losses reflects our assessment of the likelihood of realizing future tax benefits associated with these losses.

ADJUSTED EBITDA

We believe that the provision of this non-GAAP measure allows investors to evaluate the operational and financial performance of our core business using similar evaluation measures to those used by management. We use Adjusted EBITDA to measure our performance and prepare our budgets. Since Adjusted EBITDA is a non-GAAP financial performance measure, our calculation of Adjusted EBITDA may not be comparable to other similarly titled measures of other companies; and should not be considered in isolation, as a substitute for, or superior to measures of financial performance prepared in accordance with GAAP. Because Adjusted EBITDA is calculated before recurring cash charges, including interest expense and taxes, and is not adjusted for capital expenditures or other recurring cash requirements of the business, it should not be considered as a liquidity measure. For liquidity measures, see the Consolidated Statements of Cash Flows included in Part I, of this Quarterly Report. Non-GAAP financial measures do not reflect a comprehensive system of accounting and may differ from non-GAAP financial measures with the same or similar captions that are used by other companies and/or analysts and may differ from period to period. We endeavor to compensate for these limitations by providing the relevant disclosure of the items excluded in the calculation of Adjusted EBITDA to net income based on GAAP, which should be considered when evaluating the Company's results. Tucows strongly encourages investors to review its financial information in its entirety and not to rely on a single financial measure.

Our Adjusted EBITDA definition excludes provision for income tax, depreciation, amortization of intangible assets, asset impairment, interest expense (net), loss on debt extinguishment, accretion of contingent liabilities, stock-based compensation, gains and losses from unrealized foreign currency transactions and costs that are one-time in nature and not indicative of on-going performance (profitability), including acquisition and transition costs. Gains and losses from unrealized foreign currency transactions removes the unrealized effect of the change in the mark-to-market values on outstanding foreign currency contracts not designated in accounting hedges, as well as the unrealized effect from the translation of monetary accounts denominated in non-U.S. dollars to U.S. dollars.

The following table reconciles adjusted EBITDA to net income:

Reconciliation of Loss before Provision for Income Taxes to Adjusted EBITDA (In Thousands of US Dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net Loss for the period	\$ (22,297)	\$ (22,772)	\$ (67,385)	\$ (72,823)
Less:				
Provision (recovery) for income taxes	3,074	(822)	6,068	(5,557)
Depreciation of property and equipment	9,526	9,275	29,686	26,770
Impairment and loss on disposition of property and equipment	852	2,663	905	4,679
Amortization of intangible assets	1,209	2,620	4,089	8,101
Interest expense, net	13,095	10,739	37,527	29,120
Loss on debt extinguishment	-	-	-	14,680
Stock-based compensation	1,808	2,308	5,383	6,606
Unrealized loss (gain) on foreign exchange revaluation of foreign denominated monetary assets and liabilities	(197)	340	357	254
Acquisition and other costs ¹	1,618	121	5,438	1,067
Adjusted EBITDA	\$ 8,688	\$ 4,472	\$ 22,068	\$ 12,897

¹ Acquisition and other costs represent transaction-related expenses and transitional expenses. Expenses include severance or transitional costs associated with department, operational or overall company restructuring efforts, including geographic alignments.

Adjusted EBITDA increased by \$4.2 million or 94%, to \$8.7 million for the three months ended September 30, 2024, when compared to the three months ended September 30, 2023. The increase in Adjusted EBITDA from period-to-period was primarily driven by increases in Ting and Tucows Domains. Ting contribution increased \$7.1 million, primarily driven by subscriber growth across the markets we serve as well as the reduction in spend across sales and marketing activities, partially a result of personnel costs reductions realized in connection with the February 2024 workforce reduction discussed above. Tucows Domains contribution increased by \$0.6 million strong wholesale and expiry sales through the current period. These increases in Adjusted EBITDA were partially offset by decreases across Wavelo and Mobile Services and eliminations. Wavelo contributions decreased \$0.8 million primarily driven by decreased revenues both from platform and other professional services in the current period with our customers. Mobile Services and eliminations contribution decreased \$2.7 million primarily from increased professional services fees. This decrease was furthered by a decrease in income earned on sale of Transferred Assets to EchoStar.

Adjusted EBITDA increased by \$9.2 million or 71%, to \$22.1 million for the nine months ended September 30, 2024, when compared to the nine months ended September 30, 2023. The increase in Adjusted EBITDA from period-to-period was primarily driven by increases in Ting, Wavelo, and Tucows Domains. Ting contribution, which excludes the impact of the February 2024 workforce reduction, increased \$10.7 million, primarily driven by subscriber growth across the markets we serve as well as the reduction in spend across sales and marketing activities. Tucows Domains contribution increased by \$0.9 million from strong wholesale, expiry and portfolio sales through the current period as well as the inclusion of Orange Domains joint venture. The Wavelo contribution increased \$2.2 million primarily driven by increased platform revenues earned from the increased level of EchoStar subscribers on the platform for the nine months ended September 30, 2024, compared to the prior year where migrations of EchoStar subscribers were still occurring. These increases in Adjusted EBITDA were partially offset by decreases across Mobile Services and eliminations. Mobile Services and eliminations contribution decreased \$4.7 million primarily from the decrease in income earned on sale of Transferred Assets to EchoStar, increasing MNO penalties and increased professional services fees.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2024, our cash and cash equivalents balance decreased by \$17.5 million, our funds held by trustee balance increased by \$0.7 million, and our secured notes reserve funds balance increased by \$2.9 million respectively when compared to December 31, 2023. The decrease in our cash balance was driven primarily by \$44.8 million for the continued investment in property and equipment primarily driven by Ting Internet expansion, \$14.5 million related to the repayment of the 2023 Credit Facility, \$14.9 million from cash used in operating activities, \$2.0 million related to deferred notes payable financing costs; and \$0.6 million related to the acquisition of intangible assets. These uses of cash were partially offset by \$63.0 million in proceeds from the issuance of additional notes payable for Ting Internet.

2023 Credit Facility

On September 22, 2023, the Company and its wholly owned subsidiaries, Tucows.com Co., Ting Inc., Tucows (Delaware) Inc., Wavelo, Inc. and Tucows (Emerald), LLC (each, a "Borrower" and together, the "Borrowers," collectively with the Company) and certain other subsidiaries of the Company, as guarantors, entered into the 2023 Credit Agreement (the "2023 Credit Agreement") with Bank of Montreal, as administrative agent ("BMO" or the "Agent"), and the lenders party thereto, to, among other things, provide the Borrowers with a revolving credit facility in an aggregate amount not to exceed \$240 million (the "2023 Credit Facility"). The Borrowers may request an increase to the 2023 Credit Facility through new commitments of up to \$60M if the Total Funded Debt to Adjusted EBITDA Ratio (as defined in the 2023 Credit Agreement) is less than 3.75:1.00. The Credit Facility expires on September 22, 2026, which is the third anniversary of the effective date of the 2023 Credit Facility.

The 2023 Credit Agreement contains customary representations and warranties, affirmative and negative covenants, and events of default. The 2023 Credit Agreement requires that the Company comply with certain customary non-financial covenants and restrictions. In addition, the Company has agreed to comply with the following financial covenants: (1) a leverage ratio by maintaining at all times a Total Funded Debt to Adjusted EBITDA Ratio of not more than (i) 4.50:1.00 at any time from and after the Closing Date to and including December 30, 2023; (ii) 4.25:1.00 from December 31, 2023 to and including March 30, 2024; (iii) 4.00:1.00 from March 31, 2024 to and including June 29, 2024; and (iv) 3.75:1.00 thereafter; and (2) an interest coverage ratio by maintaining as of the end of each rolling four financial quarter period, an Interest Coverage Ratio (as defined in the 2023 Credit Agreement) of not less than 3.00:1.00. As at September 30, 2024 the Company's leverage ratio was 3.29:1.00 and Interest Coverage Ratio was 3.31:1.00.

Third Amended 2019 Credit Facility

In connection with entering into the 2023 Credit Agreement, on September 22, 2023, the Company paid off the principal balance, including accrued interest thereon, of the revolving loans outstanding under the Third Amended and Restated Credit Agreement (the "RBC Credit Agreement"), dated as of August 8, 2022, as amended, by and among the Company, certain subsidiaries of the Company as borrowers, certain other subsidiaries of the Company as guarantors, Royal Bank of Canada, as administrative agent ("RBC"), and the lenders party thereto, pursuant to which Tucows' prior credit facility that provided the Borrowers with a \$240 million revolving credit facility (the "2019 Credit Facility"). The RBC Credit Agreement automatically terminated upon the receipt by RBC of certain backstop letters of credit to be delivered by BMO.

During the nine months ended September 30, 2024, the Company made net repayments of \$14.5 million towards the 2023 Credit Facility. The Company ended September 30, 2024 with a remaining principal balance of \$197.4 million, for which the required repayment is due in 2026.

As of September 30, 2024, the Company held contracts in the amount of \$43.2 million with BMO to trade U.S. dollars in exchange for Canadian dollars under an uncommitted treasury risk management facility which assists the Company with hedging Canadian dollar exposures. Please see the discussion in the Material Cash Requirements section below.

Cash Flow from Operating Activities

Net cash outflows from operating activities during the nine months ended September 30, 2024 totaled \$15.0 million, an increase of 9% when compared to the nine months ended September 30, 2023.

Net loss, after adjusting for items not involving cash, during the nine months ended September 30, 2024 was \$14.6 million, an increase of 46% when compared to the prior year. Net income included non-cash charges and recoveries of \$52.8 million such as depreciation, accretion of redeemable preferred shares, stock-based compensation, amortization of intangible assets, amortization of debt discount and issuance costs, deferred income taxes (recovery), net amortization of contract costs, impairment of property and equipment, loss on disposal of domain names, undistributed earnings of equity method investee and net right of use operating asset or liability. In addition, changes in our working capital contributed to a net cash outflow of \$0.3 million. Cash utilization \$17.1 million from movement in accrued liabilities, deferred costs of fulfillment, accounts payable, and customer deposits. Partially offset by, positive cash contributions of \$16.7 million from the changes in deferred revenue, accounts receivable, inventory, contract asset, prepaid expenses and deposits, income taxes recoverable and accreditation fees payable.

Cash Flow from Financing Activities

Net cash inflows from financing activities during the nine months ended September 30, 2024 totaled \$46.4 million, as compared to the inflow of \$190.6 through the nine months ended September 30, 2023. The total cash inflows were driven by \$63.0 million in proceeds from the issuance of additional notes payable for Ting Internet, partially offset by the \$14.5 million of repayments towards the 2023 Credit Facility and \$2.0 million in deferred notes payable financing costs incurred through the nine months ended September 30, 2024.

Cash Flow from Investing Activities

Investing activities during the nine months ended September 30, 2024 used net cash of \$45.4 million, a decrease of 42% when compared to the nine months ended September 30, 2023. Cash outflows of \$44.8 million primarily related to the investment in property and equipment, primarily to support the continued expansion of our Ting Internet Fiber network footprints in California, Colorado, North Carolina and Virginia as we seek to extend both our current network and expand to new markets. We expect our capital expenditures on building and expanding our fiber network to continue during Fiscal 2024. In addition to investment in property and equipment, the current period used \$0.6 million for the acquisition of other intangible assets.

Material Cash Requirements

At September 30, 2024, the Company's Cash and cash equivalents, restricted cash and secured notes reserve funds balances totaled \$91.1 million, of which \$78.0 million belonged to Ting Internet and \$13.1 million belonged to the other Tucows' segments.

In our 2023 Annual Report, we disclosed our material cash requirements of both the Ting segment as well as the other segments excluding Ting. As of September 30, 2024, other than the items mentioned below, there have been no other material changes to our material cash requirements outside the ordinary course of business.

Ting

As of September 30, 2024, the balance owing on the Unit Purchase Agreement was \$122.1 million, with remaining capital commitments of \$108.5 million ("Note 18 - Redeemable preferred units" of the Notes to the Consolidated Financial Statements included in Part I, of this report). On May 4, 2023, Tucows, through its indirect and wholly owned subsidiaries, including Ting Fiber, LLC entered into a definitive agreement relating to a securitized financing facility where Ting Issuer LLC, a Delaware limited liability company, issued the 2023 Term Notes for a total value of \$238.5 million and 2024 Term Notes for a total value of \$63.0 million ("Note 7 - Notes Payable" of the Notes to the Consolidated Financial Statements included in Part I, of this report). The combination of these agreements is expected to fund Ting operations through Fiscal 2024.

Ting committed to workforce reductions on February 7, 2024 and October 30, 2024, which aimed to reduce Ting's workforce by 13% and 42%, respectively. Both plans were designed to lower year-over-year operating expenses by streamlining operations, reducing capital activities and reducing operating expenses within the Ting operating segment.

Ting incurred a net loss of \$75.7 million and \$90.2 million for the nine months ended September 30, 2024 and the nine months ended September 30, 2023, respectively. At September 30, 2024, Ting had \$62.2 million in unrestricted cash and cash equivalents, \$1.1 million in accounts receivable, \$1.7 million in accounts payable and \$13.9 million in accrued liabilities. At September 30, 2024, Ting's long-term liabilities included \$286.6 million payable on the 2023 and 2024 Term Notes, as well as \$122.1 million on the Redeemable Preferred Units. Ting incurred an operating cash flow deficit of \$41.7 million and \$41.7 million for the nine months ended September 30, 2024 and the nine months ended September 30, 2023, respectively. Ting has scheduled interest payments of \$38.9 million in the twelve months following September 30, 2024.

Ting may not be able to meet its financial obligations over the twelve months following September 30, 2024 without additional financing. Ting has historically relied on the proceeds from its Redeemable Preferred Units as well as its 2023 and 2024 Term Notes to fund its operations and the expansion of the Ting Fiber Internet footprint. Ting currently has limited capacity to expand its borrowings under the Base Indenture and it is uncertain whether Ting will be able to access additional Milestone Funding under the Redeemable Preferred Unit facility. Our ability to obtain additional financing if required will be subject to a number of factors, including market conditions, our operating performance and investor sentiment. If we are unable to raise additional capital when required or on acceptable terms, we may have to significantly restrict our operations or obtain funds by entering into agreements on unattractive terms, which would likely have a material adverse effect on our business, stock price and our relationships with third parties with whom we have business relationships, at least until additional funding is obtained, and which could result in additional dilution to our stockholders. If we do not have sufficient funds to continue operations, Ting could be required to seek bankruptcy protection or other alternatives that would likely result in our stockholders losing some or all of their investment in us.

Tucows Businesses Excluding Ting

Tucows businesses excluding Ting, acquisitions and capital investments have been funded by the Company's operating income and the Company's existing 2023 Credit Agreement. As of September 30, 2024, the Company's 2023 Credit Facility had an outstanding balance of \$197.4 million. Tucows businesses excluding Ting make principal repayments from time to time.

For Fiscal 2024, the Company plans to fund the cash requirements of Tucows businesses excluding Ting solely through operating income, while making discretionary loan repayments to create greater operating flexibility and access to additional financing.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We develop products in Canada and sell these services in North America and Europe. Our sales are primarily made in U.S. dollars, while a major portion of expenses are incurred in Canadian dollars. Our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. Our interest income is sensitive to changes in the general level of Canadian and U.S. interest rates, particularly since the majority of our investments are in short-term instruments. Based on the nature of our short-term investments, we have concluded that there is no material interest rate risk exposure as of September 30, 2024.

We are also subject to market risk exposure related to changes in interest rates under our 2023 Credit Agreement. Changes in interest rates will impact our borrowing cost. However, fluctuations in interest rates are beyond our control. We will continue to monitor and assess the risks associated with interest expense exposure and may act in the future to mitigate these risks.

Although our functional currency is the U.S. dollar, a substantial portion of our fixed expenses are incurred in Canadian dollars. Our policy with respect to foreign currency exposure is to manage financial exposure to certain foreign exchange fluctuations with the objective of neutralizing some of the impact of foreign currency exchange movements. Exchange rates are, however, subject to significant and rapid fluctuations, and therefore we cannot predict the prospective impact of exchange rate fluctuations on our business, results of operations and financial condition. Accordingly, we have entered into foreign exchange forward contracts to mitigate the exchange rate risk on portions of our Canadian dollar exposure.

As of September 30, 2024, we had the following outstanding foreign exchange forward contracts to trade U.S. dollars in exchange for Canada dollars:

Maturity date (Dollar amounts in thousands of U.S. dollars)	Notional amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Fair value Asset
October - December 2024	\$ 13,795	\$ 1.3686	\$ 196
January - March 2025	18,218	1.3697	306
April - June 2025	11,181	1.3692	206
	<u>\$ 43,194</u>	1.3692	<u>\$ 708</u>

As of September 30, 2024, the Company had \$43.2 million of outstanding foreign exchange forward contracts which will convert to CDN \$59.1 million. Of these contracts, \$43.2 million met the requirements for hedge accounting.

As of December 31, 2023, the Company had \$61.4 million of outstanding foreign exchange forward contracts which would convert to CDN \$84.1 million. Of these contracts, \$61.4 million met the requirements for hedge accounting.

We have performed a sensitivity analysis model for foreign exchange exposure over the three months ended September 30, 2024. The analysis used a modeling technique that compares the U.S. dollar equivalent of all expenses incurred in Canadian dollars, at the actual exchange rate, to a hypothetical 10% adverse movement in the foreign currency exchange rates against the U.S. dollar, with all other variables held constant. Foreign currency exchange rates used were based on the market rates in effect during the nine months ended September 30, 2024. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in a decrease in net income for the nine months ended September 30, 2024 of approximately \$1.5 million, before the effects of hedging. We will continue to monitor and assess the risk associated with these exposures and may take additional actions in the future to hedge or mitigate these risks.

Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash equivalents, marketable securities, foreign exchange contracts and accounts receivable. Our cash, cash equivalents and short-term investments are in high-quality securities placed with major banks and financial institutions whom we have evaluated as highly creditworthy and commercial papers. Similarly, we enter into our foreign exchange contracts with major banks and financial institutions. With respect to accounts receivable, we perform ongoing evaluations of our customers, generally granting uncollateralized credit terms to our customers, and maintaining an allowance for doubtful accounts based on historical experience and our expectation of future losses.

Interest rate risk

Our exposure to interest rate fluctuations relate primarily to our 2023 Credit Agreement.

As of September 30, 2024, we had an outstanding balance of \$197.4 million on the 2023 Credit Facility. The 2023 Credit Agreement added SOFR Loans as a form of advance available under the 2023 Credit Facility to replace LIBOR Rate Advances, and such SOFR Loans may bear interest based on Adjusted Daily Simple SOFR (defined to be the applicable SOFR rate published by the Federal Reserve Bank of New York plus 0.10% per annum subject to a floor of zero) or Adjusted Term SOFR (defined to be the applicable SOFR rate published by CME Group Benchmark Administration Limited plus 0.10% for one-month, 0.15% for three-months, and 0.25% for six-months per annum). As of September 30, 2024, an adverse change of one percent on the interest rate would have the effect of increasing our annual interest payment on 2023 Credit Agreement by approximately \$2.0 million, assuming that the loan balance as of September 30, 2024 is outstanding for the entire period.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, performed an evaluation of our disclosure controls and procedures as required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on the evaluation as of September 30, 2024 management has concluded that our disclosure controls and procedures were not effective as a result of a material weakness in our internal control over financial reporting as described in our Annual Report on Form 10-K for the year ended December 31, 2023.

We have made progress remediating the material weakness identified in our Annual Report on Form 10-K for the year ended December 31, 2023 which is described in the next section. Notwithstanding the material weakness described in Item 9A of the Annual Report on Form 10-K for the year ended December 31, 2023, we believe our consolidated statements presented in this Form 10-Q fairly represent, in all material respects, our financial position, results of operations and cash flows for all periods presented herein.

(b) Changes in Internal Control over Financial Reporting

Except set forth below, during the nine months ended September 30, 2024, there have not been any changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(c) Plan for Remediation of Material Weakness in Internal Control over Financial Reporting

As previously discussed in our Annual Report on Form 10-K for the year ended December 31, 2023, we are in the process of remediating the material weakness in our internal control over financial reporting. In connection with our assessment of the effectiveness of internal control over financial reporting, we determined that we did not design and maintain effective controls over certain information technology (“IT”) general controls for information systems that are relevant to the preparation of our financial statements. Specifically, we did not design and maintain (i) program change management controls for certain financial systems to ensure that IT program and data changes affecting certain IT systems and underlying accounting records are identified, tested, authorized and implemented appropriately and (ii) user access controls that adequately restrict user access to certain financial systems, programs and data to appropriate company personnel. Our remediation plan includes evaluating access controls to key financial systems and implementing enhanced procedures for regular access reviews. Under the oversight of the Audit Committee, management will continue to remediate and maintain effective IT controls over impacted financial systems. These steps will include training for IT control owners, enhanced change management procedures, and improved documentation that will clearly identify management’s expectations of the control activities. Subsequent to our December 31, 2023 fiscal year end, we began taking a number of actions, including evaluating access controls to key financial systems and implementing enhanced procedures for regular access reviews. We expect to continue our remediation efforts, including testing of operating effectiveness of new controls, and expect to incur additional costs remediating this material weakness.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various investigations, claims and lawsuits arising in the normal conduct of our business, none of which, individually or in the aggregate, we believe will materially harm our business. We cannot assure that we will prevail in any litigation. Regardless of the outcome, any litigation may require us to incur significant litigation expense and may result in significant diversion of our attention.

In addition, pursuant to Item 103(c)(3)(iii) of Regulation S-K under the Exchange Act, the Company is required to disclose certain information about environmental proceedings to which governmental authority is a party if the Company reasonably believes such proceedings may result in monetary sanctions, exclusive of interest and costs, above a stated threshold. The Company has elected to apply a threshold of \$1 million for purposes of determining whether disclosure of any such proceedings is required.

Item 1A. Risk Factors

The following risk factors are provided to update the risk factors previously disclosed under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023. The risks described in this Quarterly Report and in our Annual Report on Form 10-K and other Quarterly Reports are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition or operating results.

We have identified a material weakness in our internal control over financial reporting that, if not properly remediated, could adversely affect our business and results of operations.

In connection with the audit of our consolidated financial statements as of and for the year ended December 31, 2023, we have concluded that there is a material weakness relating to our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis. In addition, given our reliance on IT systems to synthesize both financial and nonfinancial information, any material weaknesses in our IT controls may result in errors in not only our consolidated financial statements but our nonfinancial metrics as well.

Specifically, we identified a material weakness occurred because we did not design and maintain (i) program change management controls for certain financial systems to ensure that IT program and data changes affecting certain IT systems and underlying accounting records are identified, tested, authorized and implemented appropriately and (ii) user access controls that adequately restrict user access to certain financial systems, programs and data to appropriate company personnel. As a result of this material weakness, management has determined that our disclosure controls and procedures and internal control over financial reporting were not effective as of December 31, 2023, March 31, 2024, June 30, 2024, and September 30, 2024.

Subsequent to our December 31, 2023 fiscal year end, we began taking a number of actions, including evaluating access controls to key financial systems and implementing enhanced procedures for regular access reviews. We expect to continue our remediation efforts, including testing of operating effectiveness of new controls, and expect to incur additional costs remediating this material weakness.

Although we believe we are taking appropriate actions to remediate the control deficiency we identified and to strengthen our internal control over financial reporting, we may need to take additional measures to fully mitigate the material weakness, and the measures we have taken, and expect to take, to improve our internal controls may not be sufficient to address the issues identified, to ensure that our internal controls are effective or to ensure that the identified material weakness will not result in a material misstatement of our annual or interim consolidated financial statements. In addition, other material weaknesses or deficiencies may be identified in the future. If we are unable to correct material weaknesses or deficiencies in internal controls in a timely manner, our ability to record, process, summarize and report financial information accurately and within the time periods specified in the rules and forms of the SEC will be adversely affected. This failure could negatively affect the market price and trading liquidity of our common stock, negatively affect our ability to raise financing, and cause investors to lose confidence in our reported financial information, subject us to civil and criminal investigations and penalties, and generally materially and adversely impact our business and financial condition.

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. Implementation of new technology related to the control system may result in misstatements due to errors that are not detected and corrected during testing. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

The Company's bankruptcy remote subsidiary Ting will require additional financing in order to meet its future financial obligations.

Ting incurred a net loss of \$75.7 million and \$90.2 million for the nine months ended September 30, 2024 and the nine months ended September 30, 2023, respectively. At September 30, 2024, Ting had \$62.2 million in unrestricted cash and cash equivalents, \$1.1 million in accounts receivable, \$1.7 million in accounts payable and \$13.9 million in accrued liabilities. At September 30, 2024, Ting's long term liabilities included \$286.6 million payable on the 2023 and 2024 Term Notes, as well as \$122.1 million on the Redeemable Preferred Units. Ting incurred an operating cash flow deficit of \$41.7 million and \$41.7 million for the nine months ended September 30, 2024 and the nine months ended September 30, 2023, respectively. Ting has scheduled interest payments of \$38.9 million in the twelve months following September 30, 2024.

Ting may not be able to meet its financial obligations over the twelve months following September 30, 2024 without additional financing. Ting has historically relied on the proceeds from its Redeemable Preferred Units as well as its 2023 and 2024 Term Notes to fund its operations and the expansion of the Ting fiber Internet footprint. Ting currently has limited capacity to expand its borrowings under the Base Indenture and it is uncertain whether Ting will be able to access additional Milestone Fundings under the Redeemable Preferred Unit facility. Our ability to obtain additional financing if required will be subject to a number of factors, including market conditions, our operating performance and investor sentiment. If we are unable to raise additional capital when required or on acceptable terms, we may have to further restrict our operations or obtain funds by entering into agreements on unattractive terms, which would likely have a material adverse effect on our business, stock price and our relationships with third parties with whom we have business relationships, at least until additional funding is obtained, and which could result in additional dilution to our stockholders. If we do not have sufficient funds to continue operations, Ting could be required to seek bankruptcy protection or other alternatives that would likely result in our stockholders losing some or all of their investment in us.

Should Ting fail to pay the Unsatisfied Preferred Return associated with the Series A Preferred Units for two consecutive quarters, Generate has the option to either (i) require Ting to redeem the Series A Preferred Units at the Redemption Price; or (ii) compel the sale of certain assets of Ting and/or its subsidiaries to Generate with a value equal to the Redemption Price. The Redemption Price is an amount equal to the outstanding Unreturned Series A Capital Balance plus the Unsatisfied Preferred Return (and pay a Make-Whole Premium if the redemption of the preferred units occurs within the four years following the Transaction Close). The Make-Whole Premium is an amount calculated immediately prior to redemption equal to: (i) (A) the Unreturned Series A Capital Balance and Unsatisfied Preferred Return outstanding immediately prior to such redemption plus (B) the cumulative and compounded Preferred Return that would have accrued (at the Preferred Rate as in effect immediately prior to such redemption) on such Unreturned Series A Capital Balance through and including the six-year anniversary of the Effective Date had such Series A Preferred Units not been redeemed, and thereafter applying to such sum a discount rate on a quarterly compounded basis equal to the Applicable Treasury Rate plus 50 basis points, less (ii) the Unreturned Series A Capital Balance and Unsatisfied Preferred Return outstanding immediately prior to such redemption.

The execution of our Ting workforce reductions involves risks that could adversely affect our business operations, financial condition, and growth strategy, including risks related to implementation difficulties, operational disruptions, and financial impacts.

To reflect the ongoing operational prioritizations of the Ting segment and to lower year-over-year operating expenses, we undertook the Ting workforce reductions on February 7, 2024 and October 30, 2024. The 2024 workforce reductions were aimed at streamlining the operations within our Ting segment. The successful execution of these plans is critical to our efforts to reduce costs, improve efficiency, and align our resources with strategic priorities. However, the implementation of the workforce reductions requires significant management attention and financial resources and is subject to a number of risks that could negatively impact our results of operations, including the following:

- **Implementation Difficulties and Costs:** The process of implementing the workforce reductions may encounter unforeseen challenges, including delays and higher-than-anticipated expenses. These difficulties could hinder our ability to achieve the anticipated benefits of the workforce reductions, such as cost savings and improved operational efficiencies.
- **Operational Disruptions:** Changes to our operational structure as part of the workforce reductions may lead to temporary disruptions in our operations. These disruptions could adversely affect our ability to meet customer demands, maintain service quality, and achieve our growth objectives.
- **Financial Impacts:** The workforce reductions are expected to incur significant upfront costs related to severance, asset write-downs, and other restructuring charges. While these expenditures are anticipated as part of the plan's implementation, they could negatively affect our profitability in the short term, even if the long-term financial benefits are expected to be positive.
- **Employee Morale and Retention:** The workforce reductions may impact employee morale and lead to challenges in retaining key personnel. Maintaining a motivated workforce is crucial to our ongoing success, and any negative effects on employee morale could adversely impact our business operations and financial performance.
- **Market and Competitive Pressures:** As we restructure our operations, there is a risk that competitors may take advantage of any perceived disruptions or weaknesses, potentially impacting our market position and competitive advantage.
- **Reputational Harm:** The public perception and reputation of our company could be adversely affected by the execution of significant restructuring plans like the workforce reductions. Public, customer, and investor perceptions of our actions, especially in relation to workforce reductions, service changes, or other visible outcomes of the restructuring, could negatively influence our brand and reputation in the market.
- **Impede Growth:** The Restructuring Plans are expected to significantly reduce capital expenditures, which will in turn slow, and in some markets pause, the expansion of the Ting Internet footprint. The resulting reduction in capital spend will result in fewer additions to the Company's Owned Infrastructure Serviceable Addresses, which in turn could lead to fewer net additions to Internet Subscribers Under Management and revenue growth.

We are subject to minimum purchase commitments with our Mobile Network Operator (“MNO”).

Following the sale of the majority of our Ting Mobile customer base on August 1, 2020, we retained a small subset of mobile customers to which we continue to provide retail mobile services through our partnership with our MNO supplier. The Company is subject to minimum purchase commitments with our MNO supplier through a “take or pay” arrangement. Between August 17, 2024 and February 16, 2026, the Company has committed to pay \$24.1 million under the “take or pay” arrangement. If we are unable to grow the Ting Mobile subscriber base or renegotiate the contract, our cost of revenues could grow significantly, and may result in a significant increase to the Company’s net loss.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On February 22, 2024, the Company announced that its Board of Directors (“Board”) has approved a stock buyback program to repurchase up to \$40 million of its common stock in the open market (the “2024 Buyback Program”). The 2024 Buyback Program commenced on February 23, 2024 and is expected to terminate on February 22, 2025. For the three and nine months ended September 30, 2024, the Company did not repurchase any shares under the 2023 Buyback Program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

No.	Description
3.1.1	Fourth Amended and Restated Articles of Incorporation of Tucows Inc. (Incorporated by reference to Exhibit 3.1 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on November 29, 2007).
3.1.2	Articles of Amendment to Fourth Amended and Restated Articles of Incorporation of Tucows Inc. (Incorporated by reference to Exhibit 3.1 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on January 3, 2014).
3.2	Second Amended and Restated Bylaws of Tucows Inc. (Incorporated by reference to Exhibit 3.2 filed with Tucows' Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the SEC on March 29, 2007).
3.3	Amendment No. 1 to Second Amended and Restated Bylaws of Tucows Inc. (Incorporated by Reference to Exhibit 3.3 filed with Tucows' Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, as filed with the SEC on August 14, 2012)
10.1	Note Purchase Agreement, dated as of August 20, 2024, by and among Ting Issuer LLC, the asset entities party thereto, Ting Holdeo LLC, Ting Fiber, LLC, and each of the Purchasers listed in Purchaser Schedule thereto (Incorporated by reference to Exhibit 10.1* filed with Tucows' Current Report on Form 8-K, as filed with the SEC on August 23, 2024).
31.1#	Chief Executive Officer's Rule 13a-14(a)/15d-14(a) Certification
31.2#	Chief Financial Officer's Rule 13a-14(a)/15d-14(a) Certification
32.1†	Chief Executive Officer's Section 1350 Certification †
32.2†	Chief Financial Officer's Section 1350 Certification †
101.INS#	Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH#	Inline XBRL Taxonomy Extension Schema Document
101.CAL#	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF#	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB#	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE#	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104#	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

Filed herewith.

† Furnished herewith.

* Certain schedules and similar attachments have been omitted in reliance on Item 601 (a)(5) of Regulation S-K. The Company will provide, on supplemental basis, a copy of any omitted schedule or attachment to the Securities and Exchange Commission or its staff upon request.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 07, 2024

TUCOWS INC.

By: /s/ ELLIOT NOSS
Elliot Noss
President and Chief Executive Officer

By: /s/ IVAN IVANOV
Ivan Ivanov
Chief Financial Officer
(Principal Financial and Accounting Officer)

Rule 13a-14(a)/15d-14(a) Certification

I, Elliot Noss, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tucows Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date November 7, /s/ Elliot Noss
2024

Elliot Noss
President and Chief Executive Officer

Rule 13a-14(a)/15d-14(a) Certification

I, Ivan Ivanov, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tucows Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date November 7, /s/ Ivan Ivanov
2024

Ivan Ivanov
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Tucows Inc. (the "Company") on Form 10-Q for the period ended September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Elliot Noss, President and Chief Executive Officer of the Company, hereby certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 07, 2024

/s/ Elliot Noss

Elliot Noss

President and Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Tucows Inc. (the "Company") on Form 10-Q for the period ended September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ivan Ivanov, Chief Financial Officer of the Company, hereby certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (3) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (4) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 07, 2024

/s/ Ivan Ivanov

Ivan Ivanov
Chief Financial Officer